MFSA
MALTA
FINANCIAL
SERVICES
AUTHORITY

Annual Report 2018

MALTA FINANCIAL SERVICES AUTHORITY

Annual Report 2018

A leading forward-looking financial services regulator, having the respect and trust of the industry and the general public, contributing towards a strong and dynamic financial sector.

Contents

01 Chairman's Foreword

Chairman's Foreword

Welcome to our 2018 Annual Report. During this year, we strived to define clearly those areas which required our prime focus and to assess how we could best allocate our resources to deliver sought-after results. Our overriding goal remains that of helping to ensure market trust and to improve the stability and integrity of the financial market in Malta.

The global financial services market is affected by uncertainties relating to sluggish economic growth, the concerns and potential opportunities associated with the UK's withdrawal from the EU and the onset of new regulation. Despite these challenges, the efforts of the Malta Financial Services Authority are paying dividends for the Maltese economy. The Maltese financial services sector continues to be one of the fastest growing in Europe. It also represents one of the highest-ranking contributors of the Maltese economy, estimated to contribute to 11.6%[1] of the total Gross Value Added, and providing for almost 12,000 jobs.

While accounting for what the Authority has achieved during the past year, this Report presents our vision for the coming years. As a regulator and supervisor of the financial services sector, we shall always take a risk-management based approach in order that our activities are commensurate with the risks identified. In this manner, we aim to enhance the public value of financial services, augment trust in the local financial market and promote a healthy competitive market.

We have presented the Authority's Vision 2021, to position the MFSA as a top-tier supervisory authority. As part of this transformative journey, we have also published a FinTech strategy with the aim of creating an environment that is conducive to technological advancements and innovative business models.

Recent technological advancements, such as distributed ledger technology and artificial intelligence, present unprecedented opportunities that call also for effective measures to contain financial integrity risks. In this regard, the MFSA have stepped up efforts to combat money laundering and terrorist financing as strategic priorities. The Authority is committed to intensifying regulation and supervision of high-risk sectors and to take action against non-compliant entities.

We expect another year of success for the financial services industry in Malta in 2019. During this period, the Authority will consolidate most of the projects on which they have worked in the past. We shall assess in more depth the potential of innovative tech-based products and services by working towards the introduction of a sandbox environment for their usage. Furthermore, the Authority shall step-up efforts in identifying, assessing and understanding the risks emanating from each area of financial services so as to develop further risk-based supervisory practices.

I am honoured to serve as Chair of the Malta Financial Services Authority at a time which is both challenging and full of opportunities. I would like to express my appreciation to all Board members and staff for their contribution and ongoing commitment, and pay tribute to the work of my predecessor, Prof. Joseph V Bannister, who chaired the MFSA for more than 20 years.

John Mamo

Prof. John Mamo
Chairman

[1] MFSA (2017), The Contribution of the Financial Services Sector to the Economy.

02

Chief Executive's Statement

Chief Executive's Statement

For the Malta Financial Services Authority, 2018 was both intensive and rewarding on a number of fronts. In April 2018, I was appointed as the new Chief Executive Officer of the MFSA and I look forward to leading this organisation as we deliver our ambitious strategy for the coming years. We operate across a wide landscape, regulating about 2,300 licensed entities, ranging from credit and financial institutions to investments, trusts and insurance businesses. As the single regulator of financial services in Malta, our mission is to be an independent, proactive and trustworthy supervisory authority which safeguards the integrity of markets and maintains stability within the financial sector, while protecting consumers.

During the year under review, the Maltese financial services sector continued to register a positive performance, bolstered by a robust regulatory framework and a culture of innovation. The industry has a strong standing in the Maltese economy and we have a responsibility to ensure continued and sustainable growth, prevent misconduct in the marketplace, and be innovative in the face of changing models adopted by the businesses we regulate.

Indeed, these past years have witnessed multiple European legislative reforms being rolled out, aiming to target the onset of the financial crisis faced globally but also to raise consumer protection and financial integrity to the next level. I admit that there is an element of regulatory change fatigue in the system and a growing concern regarding the increasing compliance costs and never-ending restrictions and obligations associated with this global regulatory reform. However, we believe that just as these reforms continue to adapt and evolve, even our own legal and regulatory framework needs to change to address emerging gaps and improve regulatory efficacy, aiming for greater convergence across sectors and consistency with other jurisdictions.

While this Annual Report explores the extensive range of our activities and how we delivered on our priorities in 2018 across the wide mandate of our functions and responsibilities, there are four main areas in particular which defined our work:

Reorganisation – strengthening our governance, culture and conduct

In line with the MFSA Vision 2021, we have embarked on a restructuring and reform exercise in the Authority's organisational structure with the aim of: [i] addressing supervisory fragmentation; [ii] ensuring efficacy in the decision-making process; and [iii] addressing supervisory gaps, as well as eliminating duplication of supervisory processes. This will see the establishment of a number of critical functions, such as that for FinTech and Innovation, Risk Management, Cybersecurity and IT risk as well as the new Financial Crime Compliance structure in line with our AML/CFT Supervisory Strategy.

In order to provide a clear line of demarcation between authorisation, supervision and enforcement, the restructuring exercise also led to the establishment of an Enforcement Directorate and Enforcement Decisions Committee, thus ensuring that the principles of natural justice - [i] the right to be heard; [ii] the rule against bias; and [iii] the "no evidence" rule - are followed.

We are also seeking to enhance our engagement with stakeholders. To this effect, the MFSA shall be setting up a Financial Services Stakeholder Panel which will provide a forum that will facilitate discussion with industry participants with respect to matters falling within the Authority's remit.

We are seeking to strengthen our supervisory engagement, with the purpose of achieving our statutory objectives better, and this will, in turn, safeguard the reputation of Malta as a jurisdiction of choice for financial services. Whilst supervisory engagement shall be enhanced across the board, particular emphasis shall be placed on AML/CFT Supervision, in line with our AML/CFT Supervisory Strategy.

More robust supervisory engagement is a general expectation of European and supranational supervisory authorities, including the European Central Bank. The achievement of this enhanced supervisory engagement will require investment in technology, expertise and human resources. As a result, the Authority will require an increase in its revenues to cover the relevant costs of enhanced supervision but also in building the required capacity and technology arrangements which will take us to the next level. Given that the MFSA is expected by international standards to be operationally independent, we are currently considering launching a consultation process intended to increase authorisation and supervisory fees to reduce dependence on government funding and, in the long run, become fully self-funded.

Embracing technological innovation

The MFSA remains committed to creating an enabling environment for innovative business models and products while ensuring that financial services are conducted in a legal and safe manner. Throughout 2018 the MFSA continued to develop the new legislative framework regulating Initial Coin Offerings (ICOs) and the provision of certain services in relation to virtual currencies, with the Virtual Financial Assets (VFA) Act coming into force on 1 November 2018. The Authority is now preparing the rules underlying and complementing this framework in line with our roll out plan.

In today's supervisory world, technology is mission critical. The MFSA will be launching an ambitious initiative which will make the Authority a role model in the application of the latest technologies, enabling the concept of data-driven supervision, coupled with an evidence-based approach. In this respect, the MFSA will be investing €12 million between 2019 and 2023 for the implementation of technological platforms which will assist the Authority in the automation of authorisation and supervisory processes, making the MFSA a more efficient and dynamic regulator. This will be underpinned by investment in the latest supervisory technology, business intelligence and knowledge management tools.

Re-Positioning the MFSA as a leading employer

As the demands of the financial services sector continued to grow, I have strategically given people and culture top priority. The MFSA worked relentlessly to up the game in recruitment and bridge the skills gap to ensure that we are properly resourced and able to attract the best talent to meet the ever-changing needs of the industry, as well as to provide a better and more efficient service. With this in mind, we have made it our goal to become an 'employer of choice' in the financial services sector.

To this end, we have increased our human capital complement and are effecting changes to our organisational structure aiming to streamline decision-making and pave the way for a refreshed leadership framework, focusing on empowerment and accountability within a defined organisational framework.

We have also remodelled our approach towards knowledge management across the organisation, exposing our people to rigorous and continuous training, mostly because we recognise that enriching the knowledge and competencies of our people is critical for us to become a top-tier regulator in Europe.

The International Dimension

Before concluding I would like to reiterate the MFSA's commitment towards cooperation with other regulators – we consider it essential to exchange views and collaborate both formally and informally with our peers on all areas of financial regulation. We shall maintain open channels of communication with all regulators, both at national and international level.

Conclusion

We are positive that in the coming years innovation will continue to redefine the financial services sector, and this will certainly bring about a number of challenges for all stakeholders within our industry. Having said that, I am sure that by working together, we can translate any challenge into an exciting opportunity. During the past year, the MFSA has made great strides and we are expecting this momentum to be maintained. Of course, it is only by working together that we can harness the full potential which the financial services industry can offer.

I therefore urge you to engage with us, to participate in the consultation documents we issue, to provide us with feedback so that we can work together to provide an approach to regulation and supervision which is really and truly future-proof. This, I believe, is in the interest of all and sundry, and we have the resolve to raise standards across the sectors we regulate and oversee.

I would like to thank the Board of Governors for their continued engagement and our staff for their hard work, support and dedication. I am proud to lead an organisation full of talented and committed individuals.

Joseph Cuschieri
Chief Executive Officer

The Authority's Structure

BOARD OF GOVERNORS

Chairman	Joseph V. Bannister (up to 6 April 2018) John Mamo (as from 10 April 2018)
Chief Executive Officer	Joseph Cuschieri (as from 24 April 2018)

MEMBERS

	Joseph Brincat
	Frans Camilleri
	John Consiglio
	Lauren Ellul
	Mario Vella
	Herbert Zammit Laferla
	Mario Borg (as from 10 April 2018)
	André Psaila (as from 10 April 2018)
Secretary	Jean Pierre Attard

John Mamo
Chairman

Joseph Cuschieri
Chief Executive Officer

John Consiglio
Board Member

Lauren Ellul
Board Member

Mario Vella
Board Member

Herbert Zammit Laferla
Board Member

Mario Borg
Board Member

André Psaila
Board Member

Frans Camilleri
Board Member

Joseph Brincat
Board Member

Jean Pierre Attard
Secretary

Organisational Structure 2018

▸ SUPERVISORY COUNCIL

Chairman	Marianne Scicluna Director General	
Members	Marisa Attard	Director – Insurance and Pensions Supervision
	Christopher Buttigieg	Director – Securities and Markets Supervision
	Karol Gabarretta	Director - Banking Supervision (up to 18 January)
	Ray Vella	Acting Director - Banking Supervision (up to 30 April)
	Catherine Galea	Director - Banking Supervision (from 1 May)
	Angele Galea St John	Director - Authorisations
	Michelle Mizzi Buontempo	Director – Conduct Supervisory
	Michael Xuereb	Director - Regulatory Development
Secretary	Karen Xuereb	

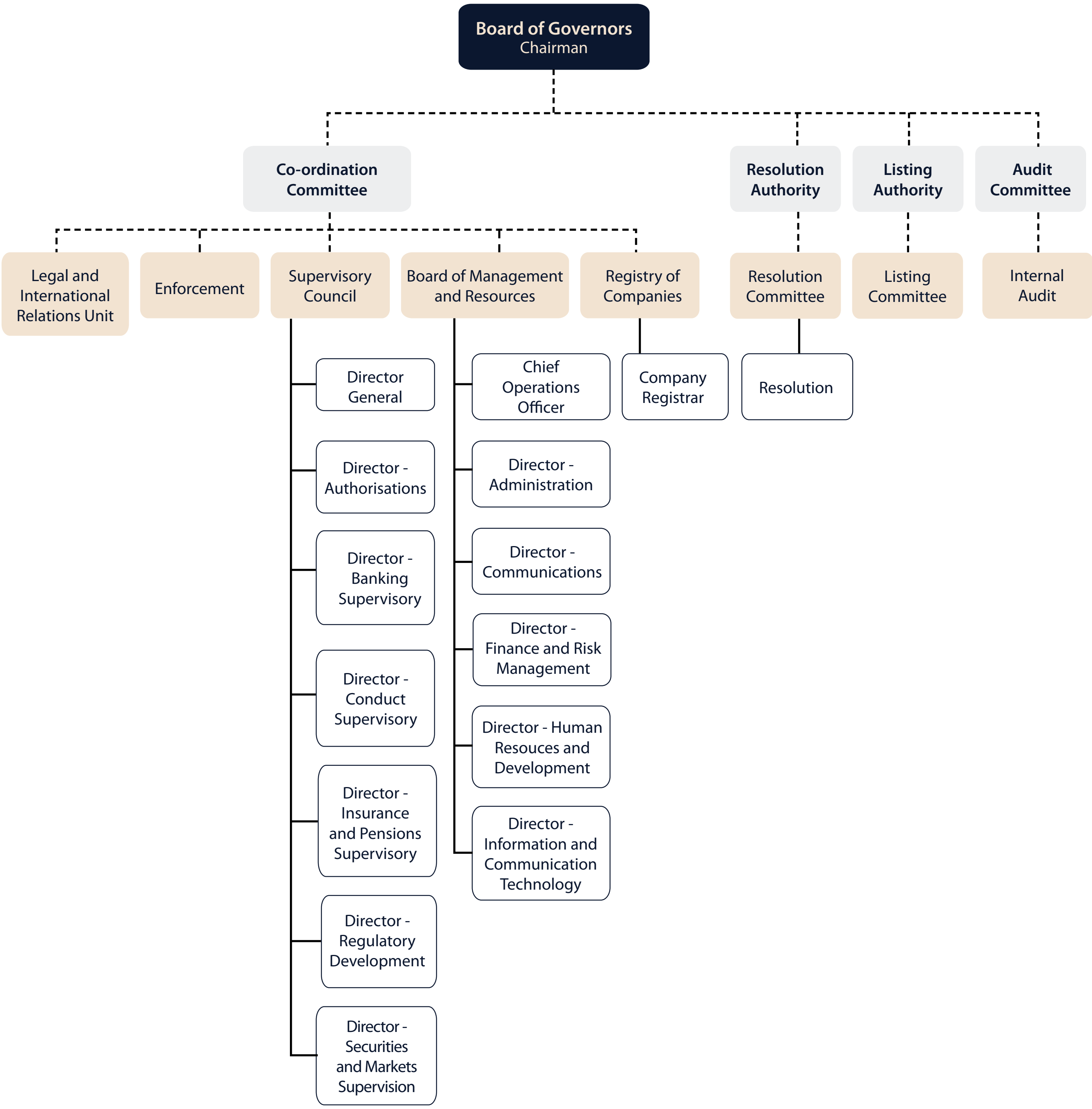
▸ BOARD OF MANAGEMENT AND RESOURCES

Chairman	Reuben Fenech	Chief Operations Officer
Members	Robert Aquilina	Head - Communications
	George Spiteri	Director - Human Resources Development
	Reuben Vella	Head - Information and Communication Technologies
Secretary	Colin McElhatton	

ORGANISATION

The Malta Financial Services Authority (MFSA) was established in 2002 by the Malta Financial Services Authority Act (Cap 330). The Authority is the single regulator for the financial services sector, which includes credit and financial institutions, securities and investment services companies, recognised investment exchanges, insurance companies, insurance intermediaries, pension schemes corporate service providers and trustees. As from 2018, the MFSA was also entrusted with regulating virtual financial assets. Up to the year in review the MFSA also incorporated the Registry of Companies and was responsible for admissibility to listing on recognised investment exchanges and for the resolution of banks in terms of the MFSA Act.

MFSA ORGANISATION CHART AS AT END 2018

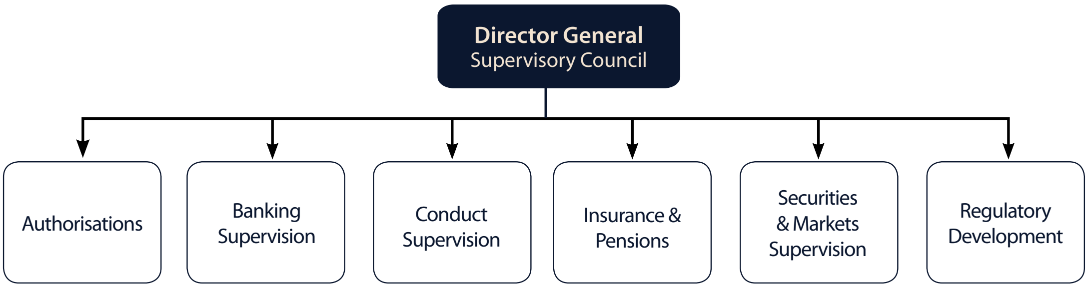


▸ COMPOSITION OF THE CO-ORDINATION COMMITTEE

Up to 2018, the Co-ordination Committee was responsible for co-ordinating policy implementation in the Authority. The Co-ordination Committee was the point of contact and the principal channel of communication and co-ordination between the Board of Governors, the Supervisory Council and the Board of Management and Resources. The Director responsible for Enforcement attended as an observer.

The Supervisory Council was composed of the following functions: Authorisations, Banking Supervision, Conduct Supervision, Insurance & Pensions Supervision, Securities & Markets Supervision and Regulatory Development.

▸ THE SUPERVISORY COUNCIL



RESPONSIBILITIES OF THE SUPERVISORY FUNCTIONS:

Authorisations: Authorisations manage and co-ordinate the processing of all applications for authorisation under the various sectoral legislation. Persons and firms carrying out the following activities need an authorisation issued by the MFSA to be able to operate within the Maltese jurisdiction: Credit Institutions, Financial Institutions, Insurance and Reinsurance Undertakings, Insurance Intermediaries, Investment Firms, Collective Investment Schemes, Trustees, Company Service Providers and Retirement Scheme Administrators.

The Authorisations team is responsible for the processing of applications, changes in control and appointment of approved persons, requests for changes in documentation, waiver/exemption applications as well as passporting notifications under the relevant EU/EEA Directives.

In fulfilling its statutory obligations, the MFSA adopts a risk-based process which aims to ensure that only applicants who are fit and proper, operate in the financial services sector in Malta. The Authorisations team is also responsible to ensure that only entities who demonstrate compliance with the respective regulatory framework are authorised to operate in Malta.

Banking Supervision: Banking Supervision is responsible for the oversight of all licensed banking activities in Malta which includes non-bank financial institutions (e.g. payment institutions). This oversight includes off-site and on-site examinations of all licensed institutions applying a risk-based approach. The ultimate objective is to ensure that these licensed institutions comply with all regulations and licence conditions, whilst having the necessary corporate governance and control structures in place.

Supervision of both Significant Institutions, which is carried out together with the European Central Bank through the Single Supervisory Mechanism, and that of Less Significant Institutions through the Supervisory Review and Evaluation Process (SREP) procedures, is executed by the Banking Supervision team.

Banking Supervision is also responsible for policy advice and development both within the MFSA and to external stakeholders, to consistently and effectively apply local legislation and transpose EU legislation and guidelines issued by the European Banking Authority.

Conduct Supervision: MFSA's Conduct Supervision oversees the way in which firms, namely those providing services in the areas of banking, insurance, investments, company service providers and trustees and other fiduciaries, design their products and services as well as the manner in which these same firms manage their relationship with consumers.

Firms which place conduct at the top of their agenda promote and support the fair, strong, efficient and transparent provision of services and increase consumer confidence. In turn, the level of trust that consumers have in financial services will also have an impact on the growth of the financial services sector.

Conduct Supervision ensures that consumers of financial services are treated fairly, honestly and professionally by regulated entities. The ultimate objective of this function is to set up a regulatory framework that secures appropriate consumer protection in financial services. The team also enacts a pre-emptive supervisory regime which addresses potential or emerging risks for financial services consumers, together with an operational regime to strengthen the responsibilities of regulated persons in treating customers fairly.

Insurance & Pensions Supervision: Insurance & Pensions Supervision is responsible for the prudential oversight of authorised re-insurance undertakings, insurance intermediaries, retirement schemes, retirement funds and retirement plan service providers, including business carried out in an EU Member State or EEA State, either through establishment or under the freedom to provide services.

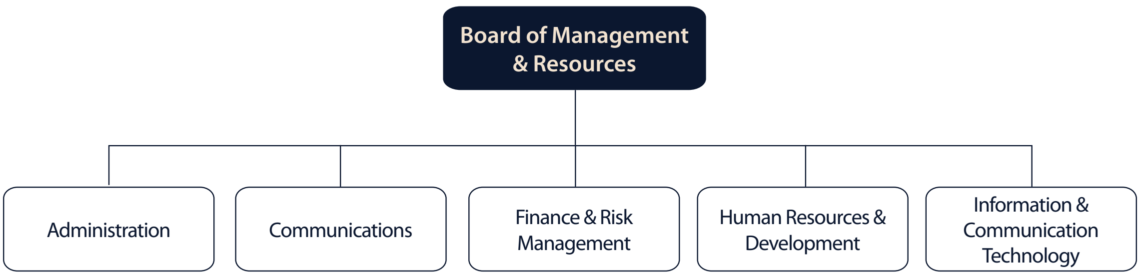
Supervision is carried out on a prospective and risk-based approach, comprising the continuous verification of the proper operation of the business of insurance and its compliance with insurance legislation, through a combination of off-site and on-site supervision.

Through its supervisory work, the team aims to protect policyholders and beneficiaries in accordance with the regulatory obligations namely emanating from the Insurance Business Act, the Insurance Distribution Act and the Retirement Pensions Act, whilst safeguarding the stability of the financial system.

Regulatory Development: Regulatory Development is responsible for research and development and the implementation of cross-sectoral policies, as well as financial stability and macro-prudential supervisory issues.

Securities & Markets Supervision: Securities & Markets Supervision is responsible for the supervision of investment services companies, collective investment schemes, fund management and related fund services operations, admissibility to listing on recognised investment exchanges, trustees and oversight of financial markets.

COMPOSITION OF THE BOARD OF MANAGEMENT & RESOURCES



RESPONSIBILITIES OF THE MANAGEMENT FUNCTIONS:

Administration: Responsible for the administrative function of the Authority, including upkeep and maintenance of premises, transport and logistics and security within premises.

Communications: Responsible for the functions of both information and public relations, together with the provision of logistical support for events. This function is also responsible for the preparation of corporate publications, the development and maintenance of the Authority's internet and intranet sites and consumer education.

Finance: The Finance team is responsible for all corporate finance affairs. This includes the preparation of financial budgets and forecasts, treasury, financial planning and control, book keeping, payroll and all statutory accounting. The team is also responsible for the collection of licence fees, payments to suppliers together with timely submission of financial statistics and information required by the Ministry of Finance, Board of Governors and other Government entities. The Finance office also liaises with the Statutory Auditors regarding the annual audit of the Authority's Financial Statements drawn up in compliance with International Financial Reporting Standards.

People & Culture: Formerly known as Human Resources & Development, this function is responsible for staff recruitment, training and development and employee relations. This function is also responsible for identifying training needs in the financial services sector and for developing, creating and implementing training programmes in conjunction with the relevant professional training bodies and academic institutions. The Department implements other staff-related provisions, including the MFSA Ethics Framework, the MFSA Anti-Fraud Policy and Occupational Health & Safety.

Technology: Formerly known as Information and Communication Technology, the Technology function at MFSA leverages cutting-edge technology, industry standards and methodologies to provide reliable services to the rest of the organisation and the entities interacting with the Authority through digital means. The team provides operational support to the other functions of the Authority and is responsible for managing the Authority's resources, efficiently supporting the overall business strategy.

It is responsible for technology design, development, integration and delivery of all the information and communications infrastructure, platforms and services, and works with several technology vendors and partners. It also ensures the protection of data based on the principles of data privacy, while mitigating against cyber threats using advanced protection mechanisms.

Technology is also assigned with the responsibility of providing information security analysis to the Regulatory functions. Officials from the Technology team participate in several European committees, expert groups and industry fora.

▶ LEGAL AND INTERNATIONAL RELATIONS

Legal and International Relations is one of the statutory organs of the Authority and some of its primary functions are set out in the MFSA Act (Cap. 330). These include the provision of legal advice and assistance to the Board of Governors and all other organs of the Authority. In addition to serving as secretary to the Co-ordination Committee and providing assistance to the various funtions within the Authority, it is also responsible for co-ordinating all legal international affairs.

▶ ENFORCEMENT

Enforcement conducts investigations of licence holders who are suspected of having committed serious compliance failures, serious misconduct, market abuse, breach of listing rules or any other serious breaches of the law. Furthermore, it investigates the actions of persons carrying out financial services activities without having the necessary licence or authorisation.

▶ REGISTRY OF COMPANIES

Up to 2018, the MFSA housed the Registry of Companies. All registered information and documentation, including company accounts and annual returns, are publicly available. The Registrar of Companies is appointed in terms of the Companies Act (Cap 386) and is entrusted with ensuring compliance with the provisions of the Act. Following the enactment of Legal Notice 144 of 2018, "Registry of Companies (Establishment as an Agency) Order," which was issued under the Public Administration Act, the Registry of Companies has become an independent Government Agency, operating separately from the MFSA.

▶ LISTING COMMITTEES

The Listing Committees are appointed by the Board of Governors in terms of Article 14 of the Financial Markets Act (Cap 345). In accordance with the Listing Rules and wholesale securities for primary markets, the Listing Committees are responsible for scrutinising applications prior to admission to listing and ensuring compliance with Listing Rules. The Listing Committee for the Primary Securities Markets is chaired by David Pullicino and Lauren Ellul, Saviour Briffa and André Camilleri as members, and mainly processes applications for admissibility to the Malta Stock Exchange (MSE). On the other hand, the Listing Committee for the Wholesale Securities Market is composed of Saviour Briffa, David Pullicino, Isabelle Agius and Frans Camilleri and mainly processes applications for the admissibility to the European Wholesale Securities Market (EWSM).

As of 1 January 2019 a single Listing Committee was appointed and this is chaired by Christopher P. Buttigieg and has as members Lauren Ellul, Edwina Licari and André Psaila. Following the restructuring of the MFSA's governance structure, the Listing Committee was incorporated as part of the Executive Committee.

RESOLUTION

Resolution is responsible for drafting resolution plans for banks and certain investment services firms, advising the Resolution Committee on whether an institution should go into liquidation or resolution, and the application of resolution tools as necessary. The Resolution team interacts on an on-going basis with European institutions and local Authorities to carry out its work.

In order to retain its operational independence from the supervisory function, the Act contemplates the creation of a Resolution Committee and its underlying structures. The Resolution Committee shall have all the powers assigned to it by the Resolution Authority under the MFSA Act. The Resolution functions are carried out as contemplated by the Act and as provided for by the Resolution Committee.

Furthermore, these structures administer the requirements emanating from the Bank Recovery and Resolution Directive (BRRD), Single Resolution Mechanism Regulation (SRMR), the Recovery and Resolution Regulations (RRR) and the Intergovernmental Agreement (IGA) on the transfer and mutualisation of contributions to the Single Resolution Fund.

INTERNAL AUDIT

Established through the provisions of Article 12d of the MFSA (Cap 330), the MFSA's Internal Audit function is an independent and consulting activity designed to add value and improve the operations and control the environment of the Authority. It designs its audit engagements to provide independent and objective assurances to the Board of Governors through the Audit Committee.

The Internal Audit function supports the Authority to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the internal risk management, control, and governance processes. It keeps the Audit Committee informed on emerging trends and standards in internal auditing and prevention of fraud by providing consultancy and advice as appropriate for the better functioning of the Authority. Internal Audit further assists the MFSA to identify, analyse, respond, gather information and monitor strategic risks that could actually or potentially impact the ability of the Authority in achieving its mission and objectives.

The Internal Audit Charter defines in general terms the purpose, scope of work, accountability, responsibility and authority of the Internal Audit function with the MFSA. It establishes the position of Internal Audit, authorising access to records, personnel and physical properties relevant to the performance of an audit engagement and defines the type and scope of the internal audit activities

SUPERVISORY QUALITY ASSURANCE FUNCTION

The supervisory quality assurance function within the MFSA, established in terms of the Single Supervisory Mechanism of the European Central Bank, is carried out under the direct responsibility of the Director General, thus being independent of the Supervisory Units and the Internal Audit function. The function ensures that equivalent high-level processes are applied throughout all sectors of the financial system for which the MFSA has a supervisory remit.

THE EDUCATION CONSULTATIVE COUNCIL (ECC)

The ECC co-ordinates and shares information on matters related to training and career development for current and prospective employees within the financial services sector, including all employees of the Authority. The ECC advises the Authority on matters related to training and career development within the sector and co-ordinates initiatives for filling identified skills gaps.

The ECC is chaired by John Consiglio. It includes representatives from the People & Culture function of the Authority, which also provides secretarial support, Castille Institute, the Faculty of Economics, Management and Accountancy (FEMA) within the University of Malta, the Institute of Financial Services – Malta (IFS), the Institute of Financial Services Practitioners (IFSP), the Institute of Legal Studies (ILS), Jobsplus, the Malta College of Arts Science and Technology (MCAST), the Malta Institute of Accountants (MIA), the Malta Institute of Management (MIM), the Malta International Training Centre (MITC), PricewaterHouse Coopers (PwC) Academy, and the Student Services Education Division within the Department of Education.

Structure 2019

In line with Vision 2021, the Malta Financial Services Authority has been restructuring its decision-making bodies and reviewing functions to address existing limitations and become a stronger and more forward-looking financial supervisor. In addition, it is investing in human resources to ensure that the MFSA becomes an employer of choice.

In this context, Parliament approved amendments to the Malta Financial Services Act and the Financial Markets Act which are aimed at making the Authority a more efficient, proactive and dynamic regulator.

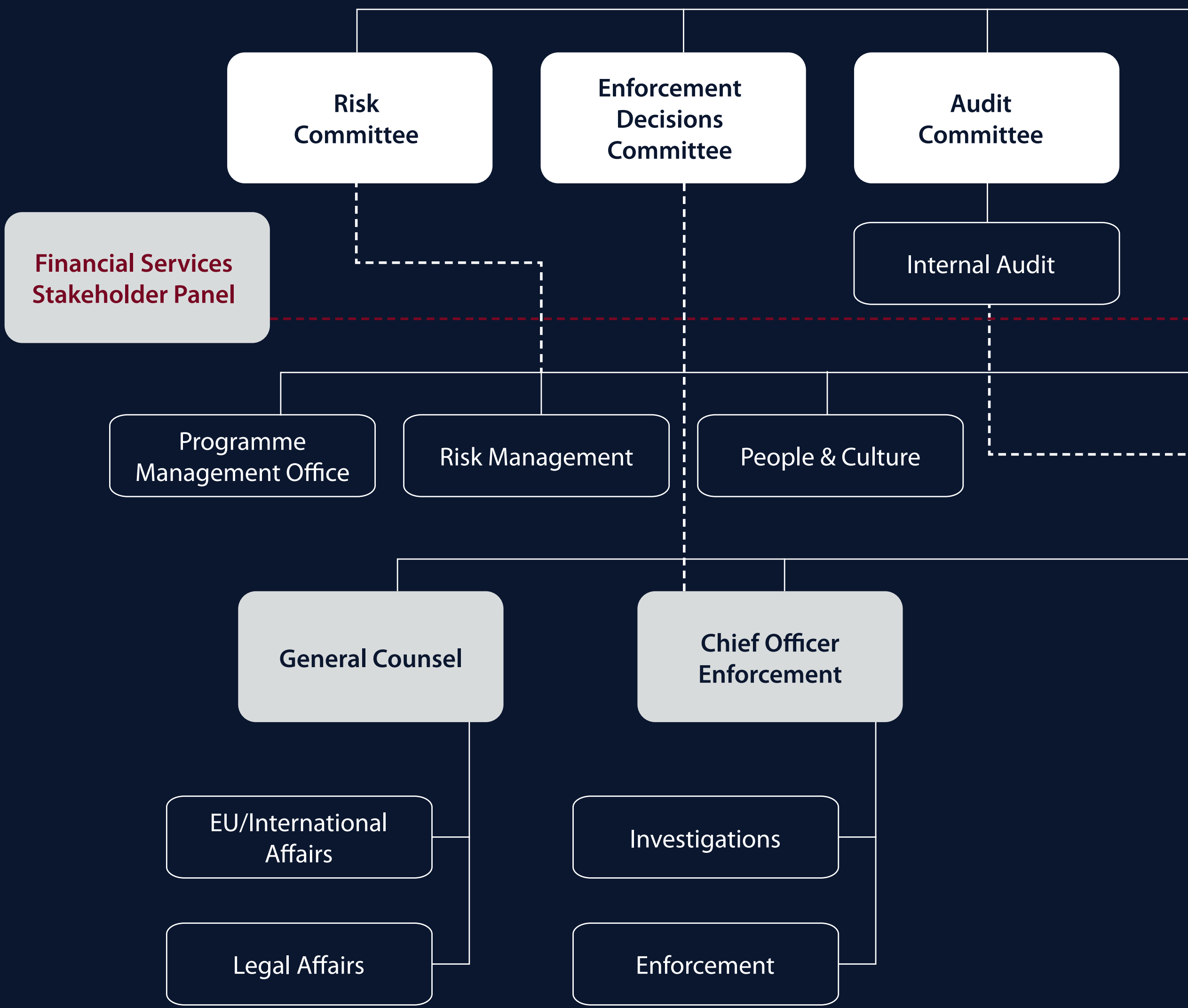
These Acts will strengthen and streamline the MFSA's decision-making processes, and boost the supervision of compliance to prevent money laundering and the financing of terrorism.

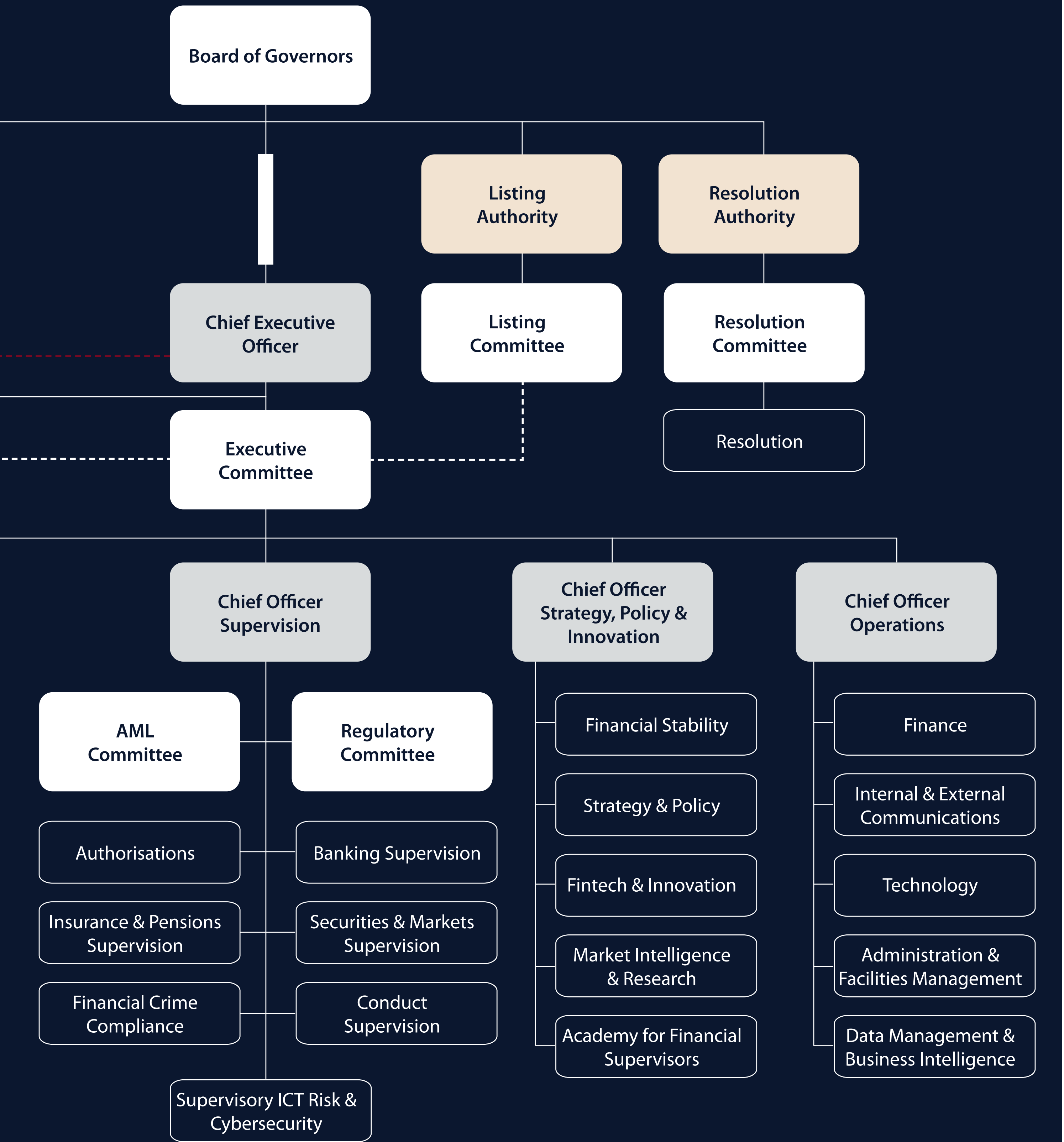
The changes brought about by the implementation of these two Acts include the establishment of:

a) the Executive Committee;
b) the Enforcement Decisions Committee;
c) the Enforcement Directorate;
d) a Financial Crime Compliance Team;
e) an AML/CFT Committee;
f) a Risk Committee; and
g) a Financial Services Stakeholder Panel.

The Board of Governors will continue to set the objectives, strategies and policies of the Authority, while the Executive Committee will be responsible for their implementation.

Structure 2019




Board of Governors
Listing Authority
Resolution Authority
Chief Executive Officer
Listing Committee
Resolution Committee
Executive Committee
Resolution
Chief Officer Supervision
Chief Officer Strategy, Policy & Innovation
Chief Officer Operations
AML Committee
Regulatory Committee
Authorisations
Banking Supervision
Insurance & Pensions Supervision
Securities & Markets Supervision
Financial Crime Compliance
Conduct Supervision
Supervisory ICT Risk & Cybersecurity
Financial Stability
Strategy & Policy
Fintech & Innovation
Market Intelligence & Research
Academy for Financial Supervisors
Finance
Internal & External Communications
Technology
Administration & Facilities Management
Data Management & Business Intelligence

EXECUTIVE COMMITTEE

The Executive Committee (Ex Co) is absorbing the functions previously exercised by the Board of Management and Resources, the Coordination Committee and the Supervisory Council. This will ensure that the Authority's decision-making body has a holistic overview of all the Authority's functions.

Chief Executive Officer
Joseph Cuschieri

Chief Officer Supervision
Marianne Scicluna

Chief Officer Operations
Reuben Fenech

General Counsel
Edwina Licari

Chief Officer Strategy, Policy and Innovation
Christopher P. Buttigieg

Chief Officer Enforcement
Vacant

THE AUDIT COMMITTEE

The Audit Committee is established by and reports to the Board of Governors. Acting independently, the Committee assists the Board in its oversight responsibilities for the internal governance, internal controls, financial statements, risk management and internal audit function of the Authority. In line with the Audit Committee Charter, the Head of Internal Audit has free and confidential access to the Chairperson of the Audit Committee.

Audit Committee Members:
Lauren Ellul – Chair
André Psaila
Mario Borg

THE RESOLUTION COMMITTEE

The Resolution Committee is appointed by the Resolution Authority, whose composition, powers and functions are governed by provisions set out in the First Schedule to the MFSA Act and the Recovery and Resolution Regulations (RRR).

The Resolution Authority has assigned all its powers to the Resolution Committee, which has the necessary authority in order to carry out its functions. The Resolution Committee is ultimately responsible for taking resolution decisions pursuant to the MFSA Act and the RRR. The Resolution Committee also interacts and collaborates closely with the Single Resolution Board (SRB) which is responsible for resolution matters at Banking Union level as established in the Single Resolution Mechanism Regulation.

Resolution Committee Members:
Paulanne Mamo – Chair
Emanuel Ellul
Philip Magri

ENFORCEMENT DECISIONS COMMITTEE

An Enforcement Decisions Committee is being established in order to provide clear demarcation between authorisation, supervision and enforcement within the financial services industry. This Committee shall be composed of competent individuals from outside the Authority, who are experienced in financial services and/or legal affairs. They shall act independently from the Executive Committee. Acting separately from the Enforcement Decisions Committee is the Enforcement Directorate, which is tasked with enforcement decisions, investigations and making recommendations for the Enforcement Decisions Committee's consideration.

AML/CFT CO-ORDINATION COMMITTEE

As part of MFSA's restructuring process, an Anti-Money Laundering and Combating the Financing of Terrorism Committee (AML/CFT) is being established. The AML/CFT Committee shall:

(i) act as a forum for alignment and coordination relating to anti-money laundering investigations and processes; and
(ii) advise the Executive Committee on process improvements relating to AML/CFT procedures.

RISK COMMITTEE

The main function of the new Risk Committee is to assist the Executive Committee and the Board of Governors with the establishment and calibration of the Authority's risk appetite and risk management policy. It shall indicate how this policy will support the Authority's strategy and align its approach to risk.

REGULATORY COMMITTEE

In line with the recommendations made by the International Monetary Fund (IMF), a Regulatory Committee (Reg Co) is being established as a sub-committee of the Executive Committee. Composed of the Chief Officer responsible for Supervision as its Chair, the Head of Authorisations and Heads of Supervisory Units, Reg Co co-ordinates regulatory, authorisation and supervisory matters. On an ongoing basis, the Chief Officer responsible for Supervision updates the Executive Committee on the discussions and decisions made at the level of the Regulatory Committee.

03

Key Trends in the Financial Services Industry

Key Trends in the Financial Services Industry

The financial services industry in Malta continued to operate in a dynamic environment in 2018, characterised by technological innovation, more robust regulation, market competition and strong overall economic growth. This, in part, mirrored trends in the global financial services sector, which was more strongly affected by tightening market conditions and uncertainty with respect to growth prospects and investor appetite for risk. Within the Euro area in particular, some Member States faced risks of a resumption of negative sovereign-bank loops, at a time of significant uncertainty surrounding Brexit.

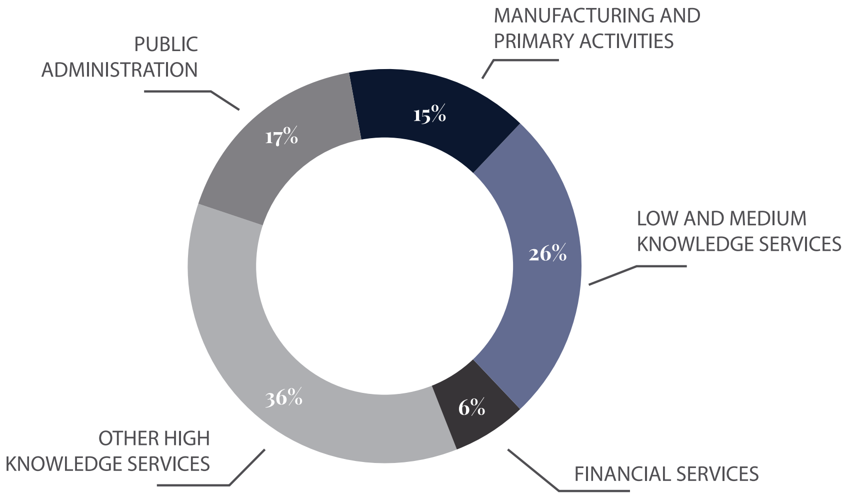
Developments in 2018 pointed to the need for the Maltese financial services industry to be ever more prepared to meet global and jurisdictional challenges in the fight against money laundering and terrorist financing. The MFSA has highlighted this issue as one of its immediate strategic priorities - in line with recommendations put forward by the IMF and the European Commission - to ensure that the financial services industry remains one of the pillars supporting the economic growth and development of the country.

The issues surrounding Brexit have also been of significant concern to the Authority in the immediate term. The MFSA has focused on the development of new technologies and enhanced regulation of innovative activities as the bases for the longer-term economic contribution of the financial services industry.

THE FINANCIAL SERVICES INDUSTRY IN THE MALTESE ECONOMY

The financial services industry in Malta is a main pillar of the Maltese economy, contributing around 6% of Gross Value Added (GVA) in 2018, as shown in Chart 1. It also amounted to one-seventh of the GVA generated in knowledge-intensive services activities in Malta during the year.

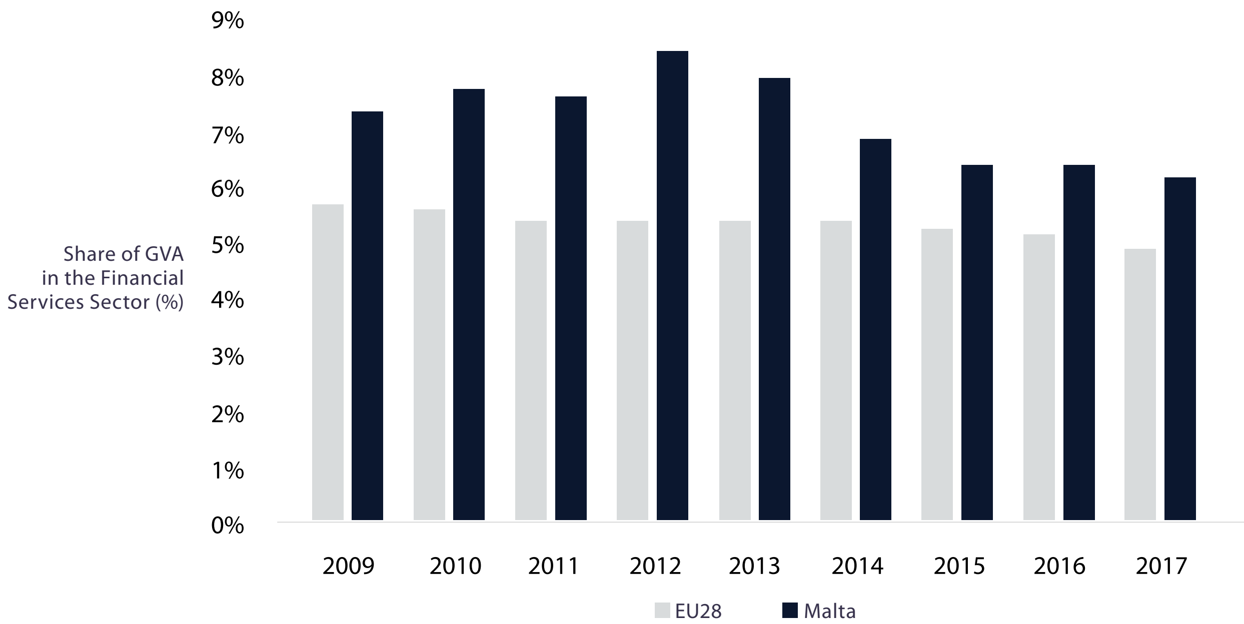
CHART 1: THE GENERATION OF VALUE ADDED IN MALTA (2018)



Source: National Statistics Office (2019)

The Maltese financial services industry continued to register notable growth rates in recent years and is, indeed, one of the fastest growing in Europe. Over the past 10 years, the contribution of the financial services sector in Malta has exceeded the EU average as shown in Chart 2. The data for the relative sectoral comparison for 2018 was not available at the time of the presentation of this report.

CHART 2: SHARE OF FINANCIAL SERVICES SECTOR'S GROSS VALUE ADDED



Source: Eurostat (2019)

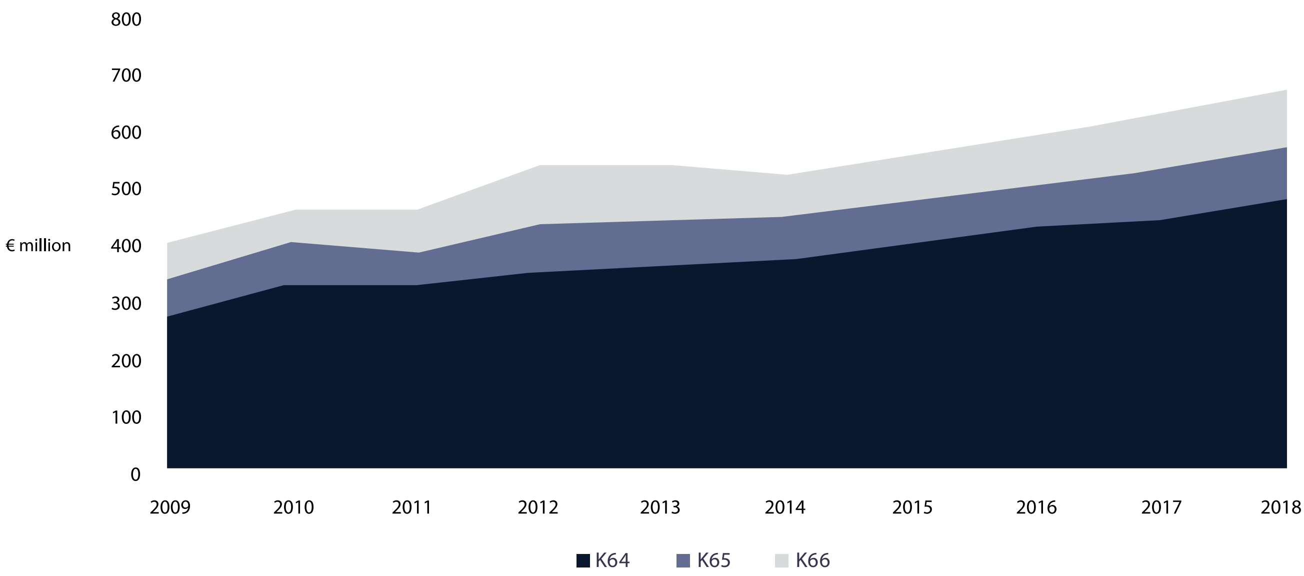
In view of the significant growth in the generation of total GVA experienced by the Maltese economy in recent years, the direct contribution of the financial services sector has declined from the 7.8% of GVA attributable to the sector in 2010. Nevertheless, the main factors driving the generation of GVA have changed since 2010, with higher rewards accruing to employment relative to capital and hence more propensity to support demand in the local economy[2].

The significant economic contribution of the Maltese financial services sector puts Malta in the same category of countries as Luxembourg and Ireland. It is estimated that the financial services sector accounts for about 28% of Luxembourg's total GVA and 7.5% of Ireland's total GVA[3]. In comparison, Malta is recorded to have experienced significant growth in the financial services GVA, equal to 9.5% in 2018.

[2] Source: Cassar (2017), The Contribution of the Financial Services Sector to the Economy.
[3] Source: Eurostat (2019) National accounts aggregates by industry (up to NACE A*64)

The financial services sector is composed of three sub-sectors according to National Accounts methods, namely: (i) Financial Service Activities, except Insurance and Funding (K64), (ii) Insurance, Reinsurance and Pension Funding, except Compulsory Social Security (K65) and (iii) Activities auxiliary to Financial Services and Insurance Activities (K66). As may be observed from Chart 3, the generation of GVA within the Financial Services sector (Sector K) has increased significantly, rising from €394 million in 2009 to €667 million in 2018. This is clear evidence that the sector is thriving and performing well.

CHART 3: DECOMPOSITION OF GROSS VALUED ADDED ACROSS FINANCIAL SERVICES SUB-SECTORS



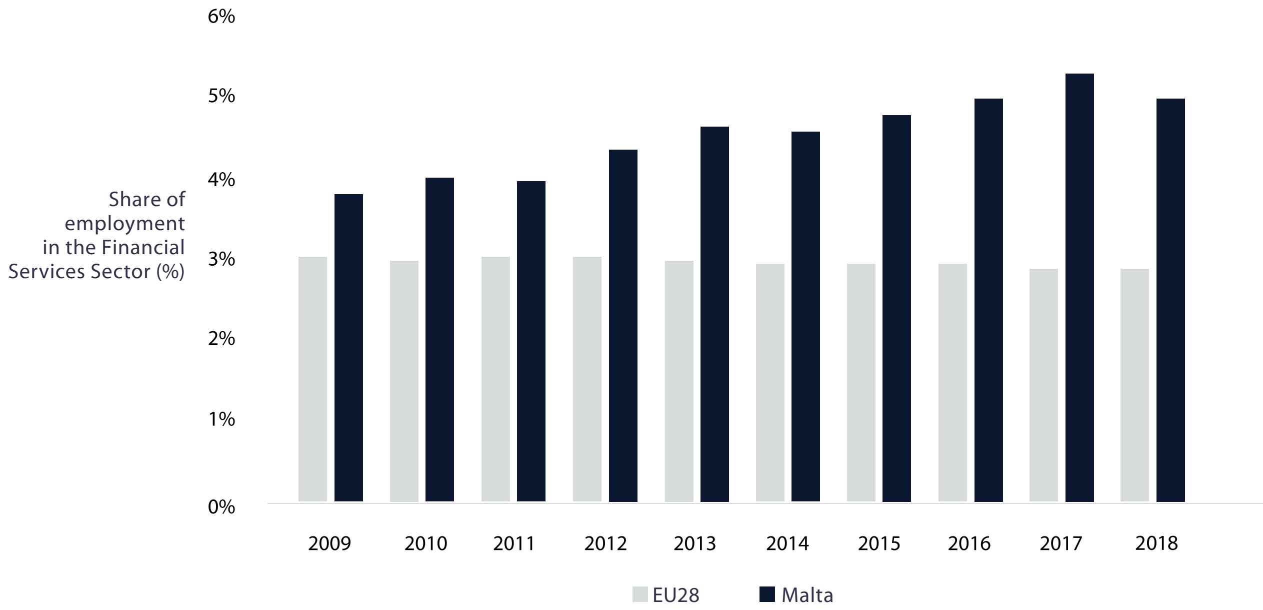
Source: Eurostat (2019)

In 2018, about 71.9% of this GVA was generated by Financial Service Activities, as captured by sub-sector K64, which includes activities of obtaining and redistributing funds other than for the purpose of insurance or pension funding or compulsory social security. This sub-sector relates to activities of monetary intermediation, activities of holding companies, trusts, investment funds and similar financial entities and other financial service activities, except insurance and pension funding.

The insurance, reinsurance and pension funding activities (K65) and auxiliary activities (K66) account for 13.9% and 14.2% respectively. Auxiliary activities include the provision of services in or closely related to financial service activities, but not directly providing financial services.

The financial sector is estimated to generate almost 12,000 jobs, amounting to around 5.3% of total employment. As depicted in Chart 4, the share of employment within the Financial Service Activities sector has grown from 3.8% in 2009. In addition, it is well above the figures recorded for the EU28, which stood at 2.9% in 2017.

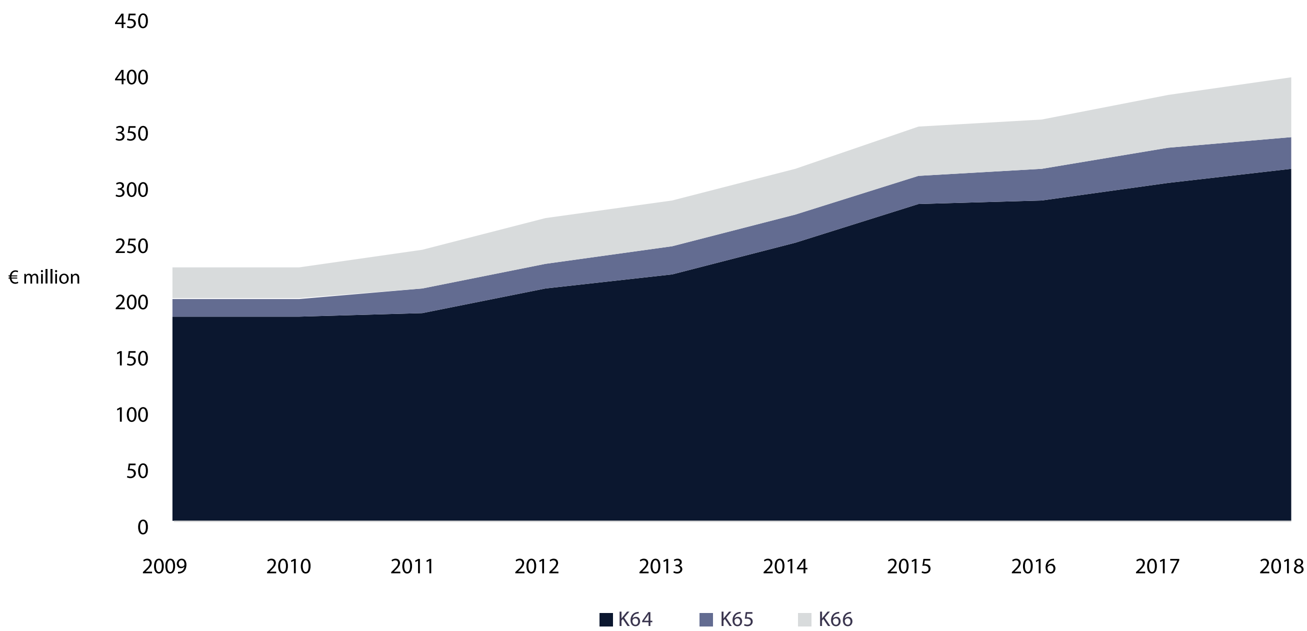
CHART 4: SHARE OF FINANCIAL SERVICES SECTOR'S EMPLOYMENT



Source: Eurostat (2019)

Human resources development is essential to managing the impact of digitalisation and automation within the sector effectively. Attracting and retaining good quality human capital helps keep up with new advancements. There appear to be good prospects in this regard since the compensation of employees paid by the financial services sector rose significantly over the period 2009 to 2018, indicating an improved total level and quality of human capital. The compensation of employees within Sector K rose from about €224 million in 2009 to €395 million by 2018, as shown in Chart 5. This is a growth rate of just over 75% over the period under consideration.

CHART 5: COMPENSATION OF EMPLOYEES WITHIN THE FINANCIAL SERVICES SECTOR



Source: Eurostat (2019)

Taking into account both the relative size of the sector and the activity it supports, it is estimated that around 11.6%[4] of the total GVA comes from financial services, making the sector a high ranking contributor to the Maltese economy.

OVERVIEW OF SECTORAL PERFORMANCE IN 2018

THE BANKING SECTOR

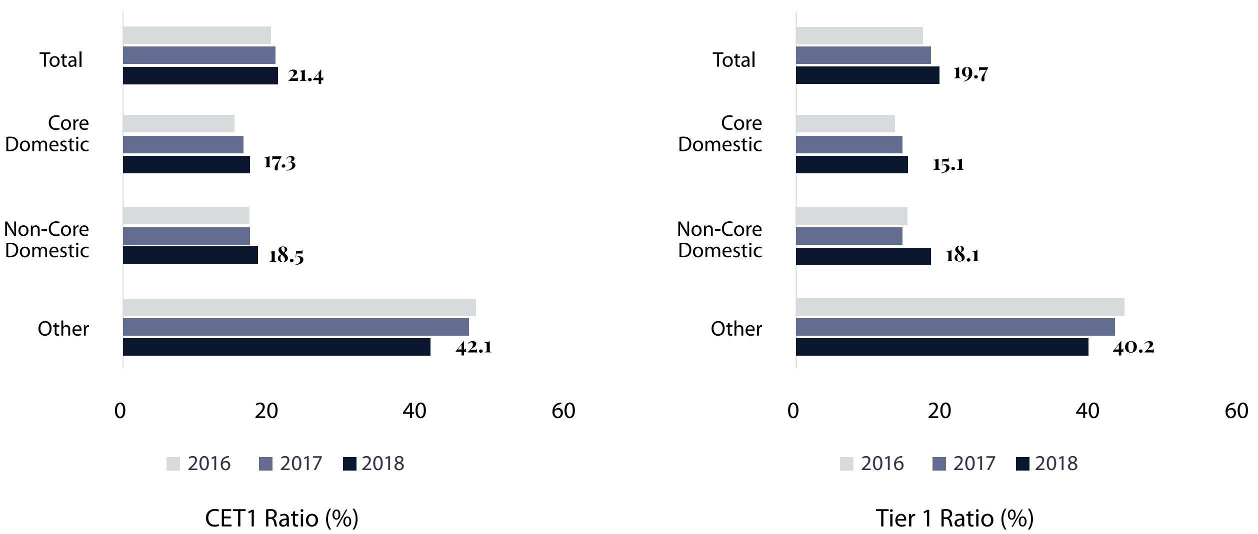
The Maltese banking sector consists of 24 credit institutions and a branch of an EU credit institution which operates in Malta in respect of the European Passporting Rights for Credit Institutions Regulations (2004). During 2018, the Maltese banking sector remained well-capitalised, characterised by ample liquidity and retaining healthy profitability levels. Nevertheless, further policy and supervisory efforts are required to address core domestic banks' high exposure to property-related loans which, coupled with rapid house price appreciation, poses potential risks. In general, key metrics point towards a banking system which is resilient overall to severe macroeconomic shocks.

In 2018, there were no major changes in the number of branches and ATMs available to the general public. The number of branches in Malta declined marginally from 120 to 118 whereas an additional four Automated Teller Machines (ATMs) were set up such that there are now 224 in total.

Capital

Maltese banks' aggregate capital position is moderately higher than that reported in the last Annual Report, such that all regulatory capital ratios have remained above minimum levels required by the Capital Requirements Directive (CRD IV) The Common Equity Tier 1 (CET1) ratio rose by 1.3 percentage points to stand at 22.3% and the Tier 1 ratio increased by 1 percentage point to amount to 21.4%. The Total Capital Ratio ratio is defined as the bank's total own funds to risk-weighted assets whereas the Tier 1 capital ratio is the bank's Tier 1 capital to risk-weighted assets. This reflects the prudent capital management stance in the banking sector underpinned by regulatory oversight and requirements.

CHART 6: CET1 AND TIER 1 CAPITAL RATIOS (%)



Source: Malta Financial Services Authority (2019)

[4] This figure is based on the SIOT for 2010 and takes into account direct, indirect and induced effects. Source: Cassar (2017), The Contribution of the Financial Services Sector to the Economy.

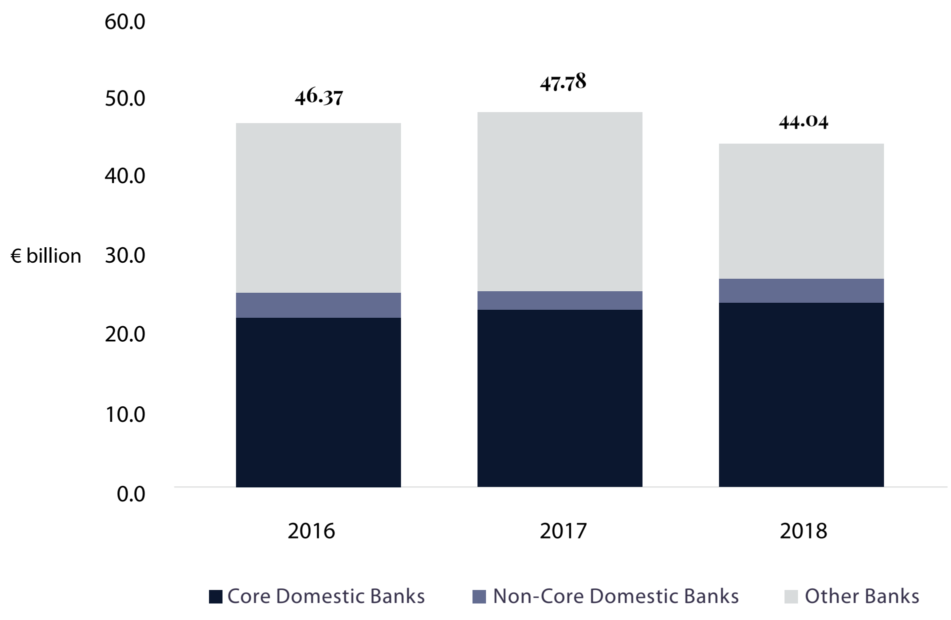
The results for Malta are positive relative to the EU average since, as at Quarter 4, 2018, the CET1 ratio in the EU was estimated at around 14.7% and the Tier 1 ratio was estimated to stand at 16.3%. Chart 6 illustrates these ratios for the period 2016 to 2018 for the aggregate banking sector as well as for the different categories of banks, namely Core Domestic Banks[5], Non-Core Domestic Banks[6] and Other Banks[7]. Chart 6 indicates an improvement in the CET1 and Tier 1 capital ratios across all categories of banks during 2018.

The other systemically important institutions (O-SIIs) capital buffer is a macro-prudential tool legally embedded in the CRDIV/CRR framework which consists of a capital surcharge applied to institutions that due to their systemic importance are more likely to create risks to financial stability arising from misaligned incentives and moral hazard[8]. The Central Bank of Malta and the MFSA reconfirmed the banks identified as systemically important credit institutions in 2018 and requested them to hold additional capital buffers, with buffer rates being institution-specific. As currently designated, the fully loaded O-SII buffer in 2019 will range from 0.5 per cent to 2.0 per cent.

Credit and Asset Quality

As at the end of 2018, the aggregate value of total assets held by Maltese banks declined by €3.74 billion to stand at €44.04 billion (Chart 7). This fall in assets is primarily attributed to the activity of 'Other Banks', where two particular banks reduced their asset base in the Maltese registered entity. Turning to the total assets of the core domestic and non-core domestic banks, these recorded positive growth rates of 4.7% and 19.6% respectively during 2018.

CHART 7: ASSETS OF THE BANKING SECTOR



Source: Malta Financial Services Authority (2019)

[5] The 'core domestic banks' are made up of the following credit institutions: APS Bank Limited, BNF Bank plc, Bank of Valletta plc, HSBC Bank Malta plc, Lombard Bank Malta plc and MeDirect Bank (Malta) plc.

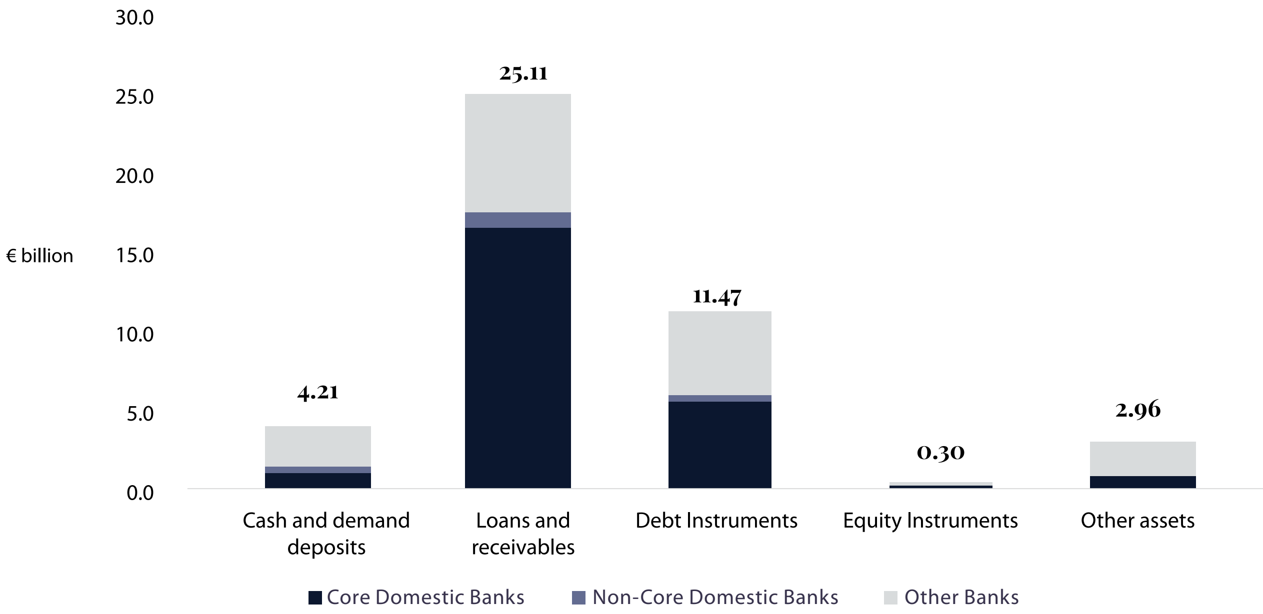
[6] The 'non-core domestic banks' category consists of the following credit institutions: FCM Bank Limited, FIMBank plc, IIG Bank (Malta) Limited, Izola Bank plc and Sparkasse Bank Malta plc.

[7] 'Other banks' comprises the following credit institutions: AgriBank plc, Akbank T.A.S., Credit Europe Bank N.V. (Branch Malta), Credorax Bank Limited, CommBank Europe Limited, ECCM Bank plc, Ferratum Bank Limited, MFC Merchant Bank Limited, NBG Bank Malta Limited, Pilatus Bank Limited, Sata Bank plc, Turkiye Garanti Bankasi AS, Novum Bank Limited and Yapi Kredi Bank Malta.

[8] Source: Central Bank of Malta, MFSA (2019), Statement of Decision on the Methodology for the Identification of Other Systematically Important Institutions and the Related Capital Buffer Calibration

The assets of Maltese banks are largely concentrated in loans and receivables, such that these represented around 57% of the assets in 2018. All bank categories registered similar results. Indeed, in 2018, core domestic banks had 69.2% of their assets in terms of loans and receivables whereas the same ratio for non-core domestic and other banks stood at 38.4% and 43.4% respectively.

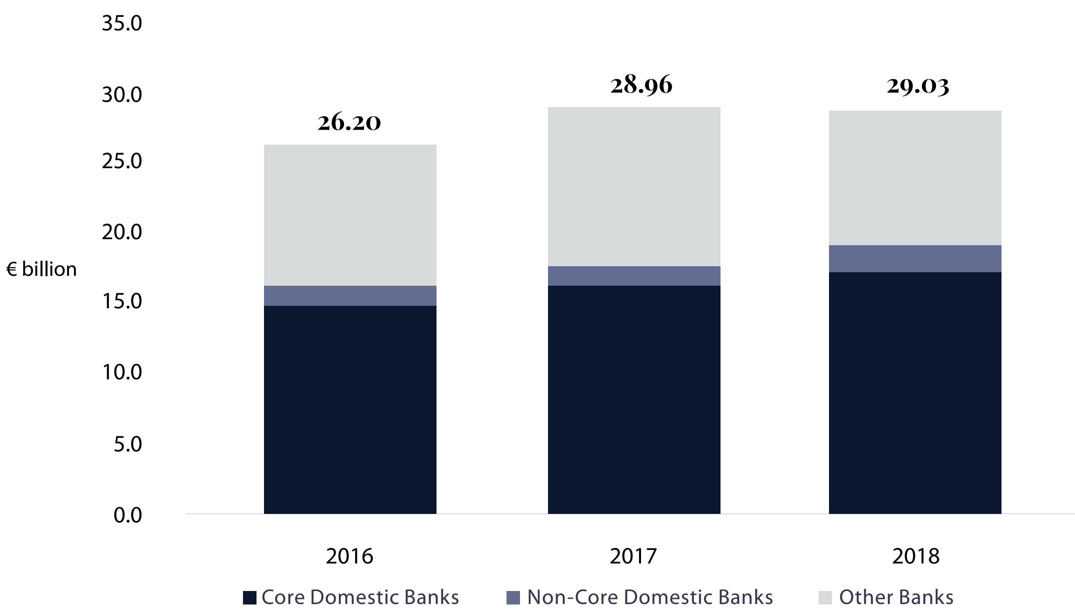
CHART 8: DISTRIBUTION OF ASSETS IN 2018



Source: Malta Financial Services Authority (2019)

Advances have remained relatively stable over the year under review, standing at €29.03 billion in the aggregate banking sector. Core domestic banks and the non-core domestic banks have registered growth rates equal to 6.3% and 18.0% respectively in the amount of loans and advances. In contrast, during 2018, the category of 'other banks' recorded a notable decline in the amount of loans and advances, equal to 10.8%.

CHART 9: LOANS AND ADVANCES OF THE BANKING SECTOR



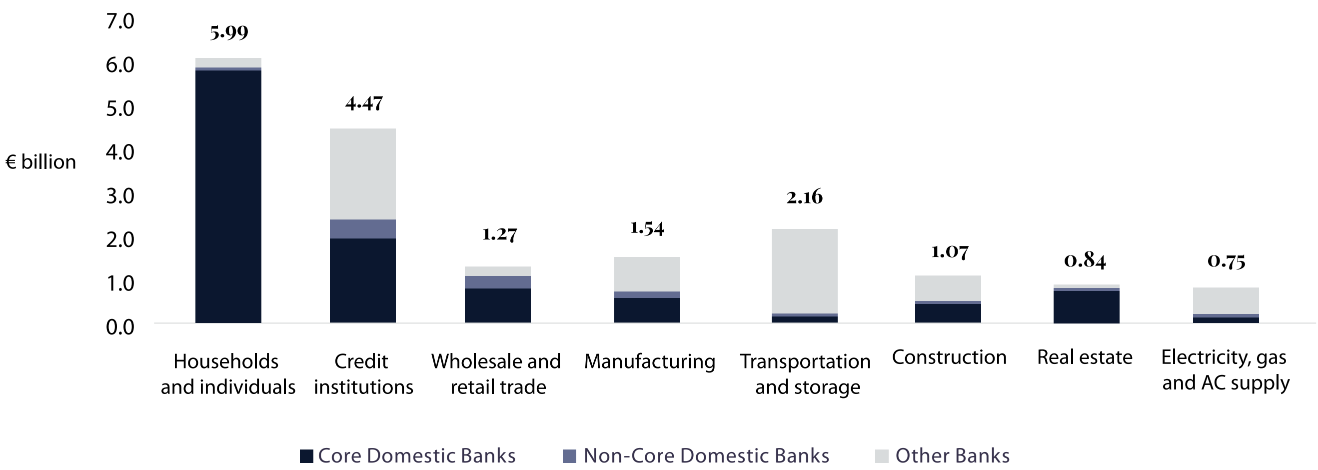
Source: Malta Financial Services Authority (2019)

At the highest level of consolidation, the Non-Performing Loans (NPL) ratio of the aggregate banking sector was almost 3.1% in 2018.

Furthermore, the European Banking Authority (EBA) notes in its Risk Assessment (December 2018) that elevated shares of exposures to credit institutions and other financial corporations are reported for countries such as Luxembourg, the UK, Germany and Malta.

In aggregate terms, lending to 'households and individuals' represented the largest share of loans and advances, standing at 33.1% (€5.99 billion) in 2018 (Chart 10). This is followed by lending to credit institutions, and transportation and storage.

CHART 10: LOANS AND ADVANCES – TOP EIGHT SECTORS



Source: Malta Financial Services Authority (2019)

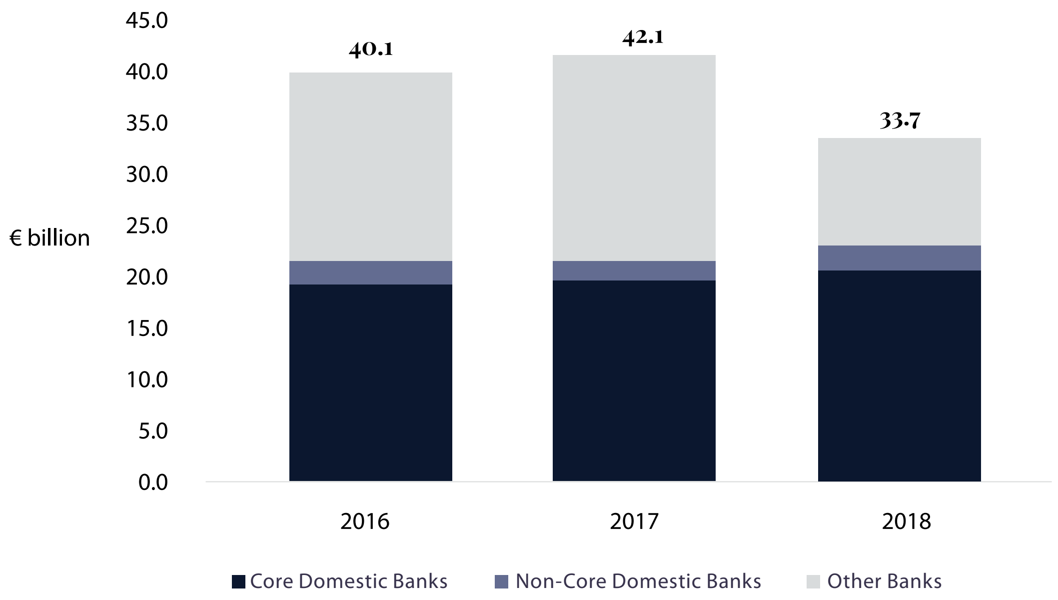
The core domestic banks are mostly exposed to 'households and individuals' which represent around 54.7% of their total loans and advances, and to 'credit institutions', representing around 18.1% of their lending. Lending by non-core domestic banks and other banks is mostly concentrated in loans and advances to 'credit institutions.'

In the aggregate banking sector, Maltese residents had a share of 55.4% of total placements and loans advanced in 2018. The remaining 44.6% were granted to non-Malta residents.

Deposits

In the current low interest rate environment, deposit funding represents an attractive source of funding for Maltese banks but, during the year under review, the aggregate banking sector experienced a decline in deposits equal to around 19.9%. This fall in deposits clearly stems from the 'Other Banks' category of the Maltese banking industry, where two banks in this category reduced their deposit base in the Maltese registered entity. In contrast, deposits within domestic banks (core and non-core) registered a positive growth rate of 6.1%.

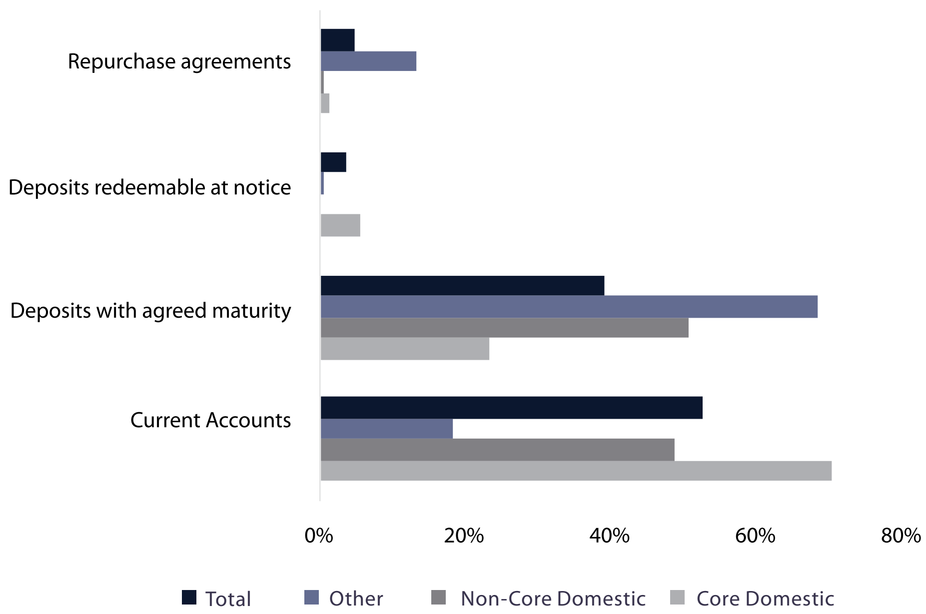
CHART 11: DEPOSITS IN THE BANKING SECTOR



Source: Malta Financial Services Authority (2019)

In the aggregate banking sector, 52.6% of the deposits were held in current or overnight accounts, followed by deposits with agreed maturity at 39.0%. Similarly, the deposits of core domestic banks are also mostly concentrated in current account deposits, with the share of such deposits amounting to around 70.3%.

CHART 12: DISTRIBUTION OF DEPOSITS IN 2018



Source: Malta Financial Services Authority (2019)

Non-core domestic banks and other banks' deposits are chiefly held in deposits with agreed maturity, with the share of such deposits for non-core domestic banks standing at 50.7% and that for the other banks amounting to 68.3%.

Almost 59% of total borrowings and deposits in the aggregate banking sector were held by Maltese residents, with the remaining 41% owned by Non-Maltese residents.

OPPORTUNITIES AND CHALLENGES

Further efforts are required regarding to anti-money laundering enforcement. The effective implementation of the AML/CFT framework is crucial, especially for banks to retain their correspondent banking relationships. To this end, the MFSA reiterates its commitment to improve the understanding of ML/TF risks and to continue cooperating with the European Banking Authority (EBA) with the aim of affecting the necessary improvements in its risk-based supervision system, so that such risks are identified and addressed.

A no-deal Brexit could give rise to negative consequences for investment and growth. As a small open economy, Malta is vulnerable to external shocks through trade linkages. Against this background, a no-deal Brexit could potentially give rise to higher financial market volatility with potential negative consequences for investment and growth. Nevertheless, given the relatively high reliance of government and core domestic banks on domestic funding, coupled with the necessary steps taken by national authorities in cooperation with relevant authorities at EU level, direct financial spill-overs should be contained.

Legacy NPLs continue to weigh on banks' balance sheets. Legacy of corporate Non-Performing Loans (NPLs) in core banks recorded notable reductions over the period 2014 to 2017. This positive development appears to have stalled in 2018 and legacy NPLs in construction and real estate sectors continue to weigh on banks' balance sheets, reflecting enduring inefficiencies in the corporate insolvency process.

Competition from growing corporate bonds market and non-bank financial institutions could pose a challenge in the long run. Potentially, this challenge could exhibit itself in terms of higher contagion risk since concentration and liquidity risks could be significant in the corporate sector.

Malta's new development areas related to the distributed ledger technology (DLT) present both opportunities and risks. The new regulatory framework for DLT and virtual financial assets made Malta one of the first countries to provide a specialised framework to previously unregulated activities and is expected to lead to the migration of some of the largest crypto-asset exchange platforms to the island. Technological innovations may give rise to financial integrity risks and the enforcement of the AML/CFT framework is especially challenging where virtual financial assets are involved.

SECTOR-SPECIFIC ACTIONS

Based on the above considerations, it can be concluded that the banking system in Malta is well-capitalised, liquid, profitable and resilient to real estate and housing shocks. The soundness and resilience of Malta's banking sector were also confirmed by the comprehensive results of a stress test using the EBA's methodology. Nonetheless, the challenges faced by this sector are not underestimated by the MFSA. Indeed, the Authority is acting upon several recent recommendations from international organisations on how to address them.

Identifying potential Brexit risks. The EBA has recommended all Member States identify the risk channels (beyond the general risk of market turmoil) arising from the possible departure of the UK from the EU without a ratified withdrawal agreement. This process includes, but is not limited to, identifying (i) direct financial exposure to the UK, (ii) existing contracts with the UK, (iii) reliance on the UK financial market infrastructures (FMIs), including central counterparties (CCPs) and related ancillary services, (iv) the storage of data in, and transfer of data to, the UK and (v) reliance on funding markets in the UK[9].

Addressing legacy non-performing loans. Continued progress in the resolution of distressed legacy loans would help restore the bank lending channel for corporates. The recently introduced Banking Rule, requiring banks to reduce their NPL ratio to below six percent, is a welcome step and will help banks to free-up resources and reduce the cost of corporate lending.

Addressing potential vulnerabilities in the residential real estate market. The housing-related macroprudential instruments, namely Loan-To-Value (LTV) and Debt Service-To-Income (DSTI) limits as well as amortisation requirements, are expected to address the build-up of vulnerabilities in the residential real estate market and improve balance sheets' resilience to a reversal in housing market conditions.

The ever-increasing importance of intercompany lending and non-bank financial institutions (NBFIs) warrants enhanced data collection and monitoring efforts. This contributes to ensuring that credit provision by these institutions does not lead to excessive build-up of corporate leverage or large indirect exposures of banks to corporates, particularly if concentrated in specific sectors. Moreover, disclosure and reporting frameworks for NBFIs must be improved.

[9] Refer to: Opinion of the European Banking Authority on preparations for the withdrawal of the United Kingdom from the European Union issued on 25 June 2018

▸ SECURITIES AND INVESTMENT SERVICES

Securities and investment services represent an important element of the financial services industry. During the year under review, the total assets of securities and investment services sector in Malta rose to €11.7 billion, up from about €10.8 billion 12 months earlier. The sector has expanded in recent years in part due to the low interest rate environment and changes in the global regulatory environment. In 2018, this sector consisted of 156 companies licensed in terms of the Investment Services Act (Cap 370). During the year under review, 11 new companies were licensed, most of which are classified under Category 2.

Approved Issues

The number of prospectuses approved by the Listing Authority for listing on the Malta Stock Exchange or the European Wholesale Securities Market remained stable in 2018 relative to the previous year, with a total 19 issues approved. Of these, there were six corporate bond issues, two equities issues and one Malta Government Stock issue. The aggregate nominal value of these issues approved and admitted to listing on the Malta Stock Exchange by the Listing Authority was more than €0.20 billion.

Moreover, the Authority approved six prospectuses relating to listing on the wholesale market, five being interest-bearing bonds and the other being a supplement to a base prospectus in respect of an offering programme for the issuance of Asset Backed Securities.

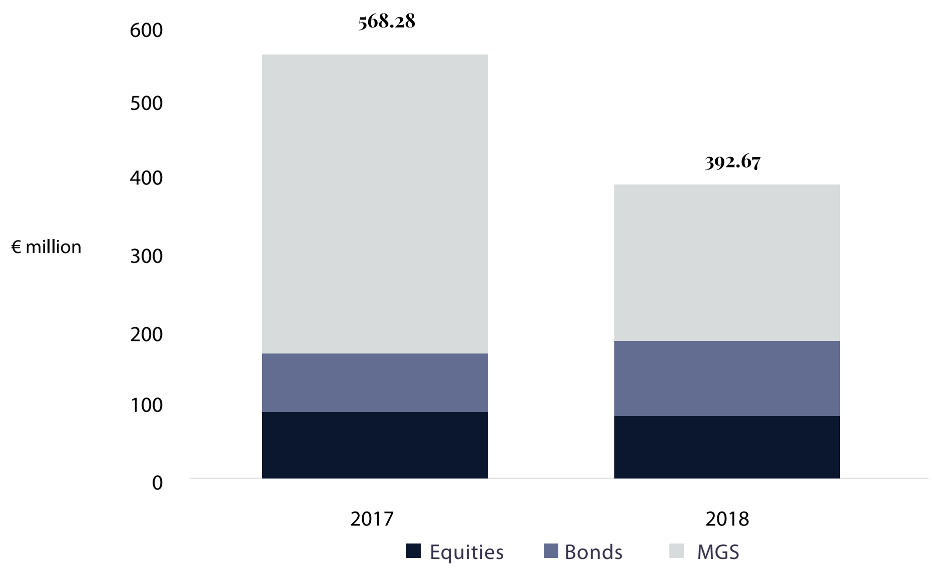
Moreover, in July 2018 the European Wholesale Securities Market ceased its operations and all previously listed issuers have the relevant arrangements to transfer their listing to the Institutional Financial Securities Market (IFSM). The IFSM is another market launched by the Malta Stock Exchange and is specifically designed for institutional investors.

Turnover

The total market turnover on the Malta Stock Exchange recorded a decline compared to the previous year. Chart 13 presents the total market turnover on the Malta Stock Exchange, indicating that in 2018 this stood at almost €0.4 billion. The volume of turnover was 30.9% less than that registered in 2017, mainly due to lower trading in government stocks.

In the equity market, trading declined marginally by 1.9%, from €88 million in 2017 to €86.3 million in 2018. Trading in the corporate bond market reached €93.7 million in 2018, up 22.5% from the previous year. Moreover, one asset-backed security and five bond issues were approved and admitted to listing on the European Wholesale Securities Market.

CHART 13: MARKET TURNOVER ON THE MALTA STOCK EXCHANGE



Source: Malta Financial Services Authority (2019)

Collective Investment Scheme Licences

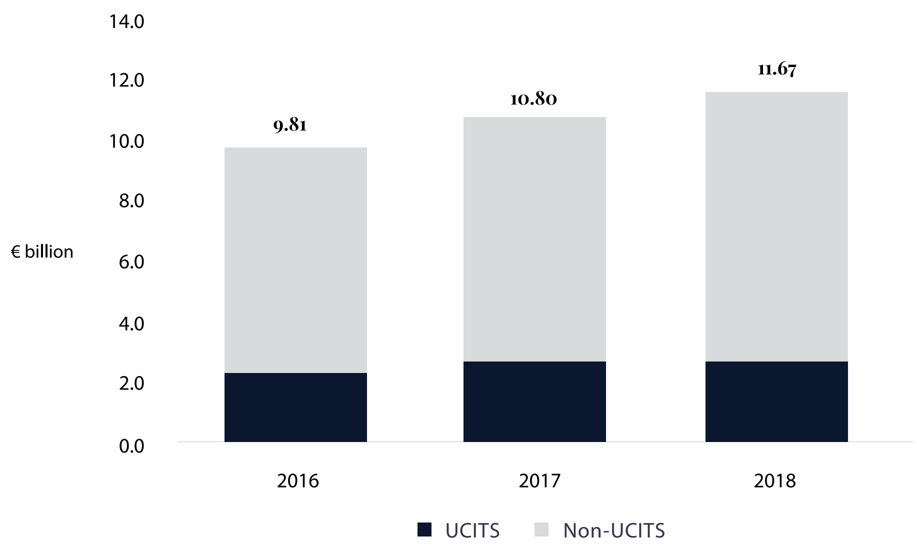
With respect to Collective Investment Scheme Licences in 2018, the Authority licensed 63 new funds (including sub-funds). Professional Investor Funds remained the most popular with investors, representing about 52.4% of the total new licensed funds. Alternative Investment Funds (AIFs) followed at 30.2% with Undertakings for Collective Investment in Transferable Securities at 17.5%. Additionally, 18 funds were included in the list of notified AIFs in 2018, one more than the previous year.

The number of licences that were surrendered from the market during the year amounted to 75, one more than the previous year. Of these, 62 were Professional Investor Funds, seven UCITS funds and six AIFs. Furthermore, seven funds were delisted from the list of notified AIFs in 2018. At the end of 2018, there were also 190 non-Malta domiciled funds (including sub-funds) administered by locally-based fund administrators and 133 non-Malta domiciled funds (including sub-funds) managed by fund managers established in Malta.

Funds Domiciled in Malta

Funds domiciled in Malta reported an aggregate net asset value of €11.7 billion in 2018 (Chart 14), an increase of 8.0% from the previous year.

CHART 14: NET ASSET VALUE OF MALTA DOMICILED FUNDS



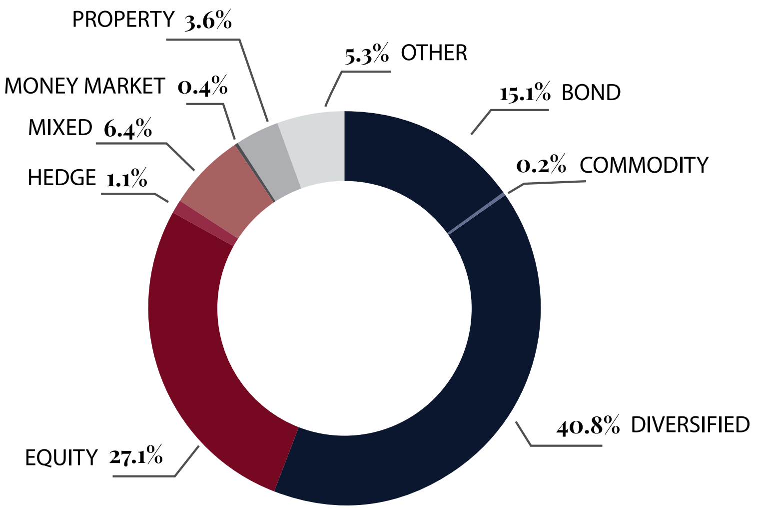
Source: Malta Financial Services Authority (2019)

Domiciled Funds

Net assets of UCITS funds declined by 2.2%, from €2.7 billion in 2017 to €2.6 billion in 2018. Non-UCITS funds registered a growth of 11.4% over the same period with net assets totalling €9.0 billion at the end of the year under review.

Chart 15 illustrates the allocation of Net Asset Value (NAV) across different asset categories, with bond funds representing around 15.1% of the total NAV of assets.

CHART 15: NET ASSET VALUE BY ASSET ALLOCATION

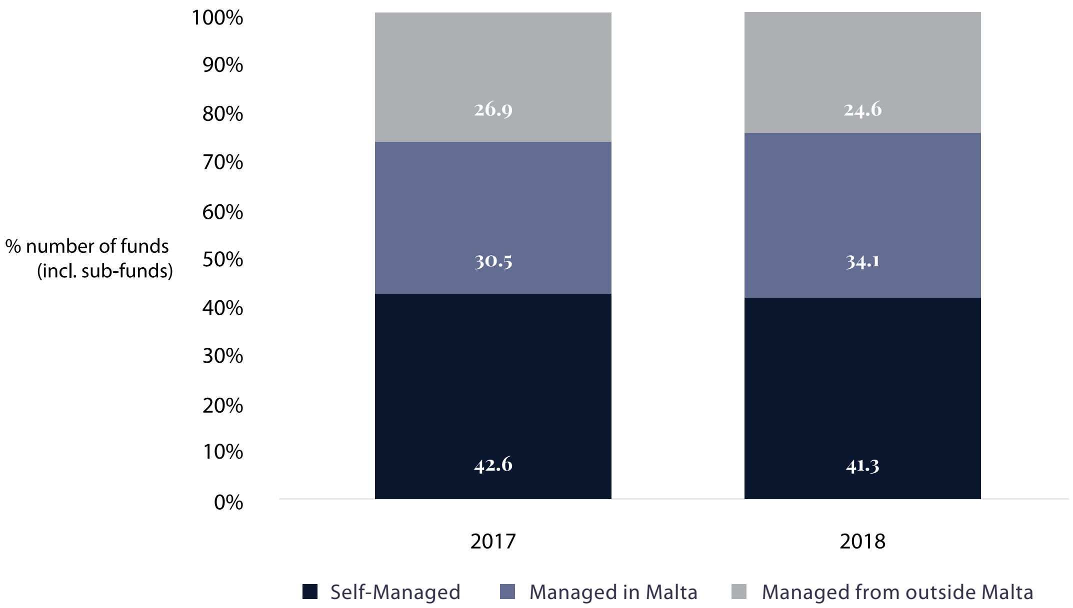


Source: Malta Financial Services Authority (2019)

Management and Administration of Malta Domiciled Funds

Self-managed funds remained the most popular with about 41.3% of funds (including sub-funds) licensed at the end of 2018. Funds managed by locally-established fund managers registered an increase of 3.6 percentage points from the previous year to stand at 34.1% as at the end of 2018, while funds managed from outside Malta declined by 2.3 percentage points over the same period.

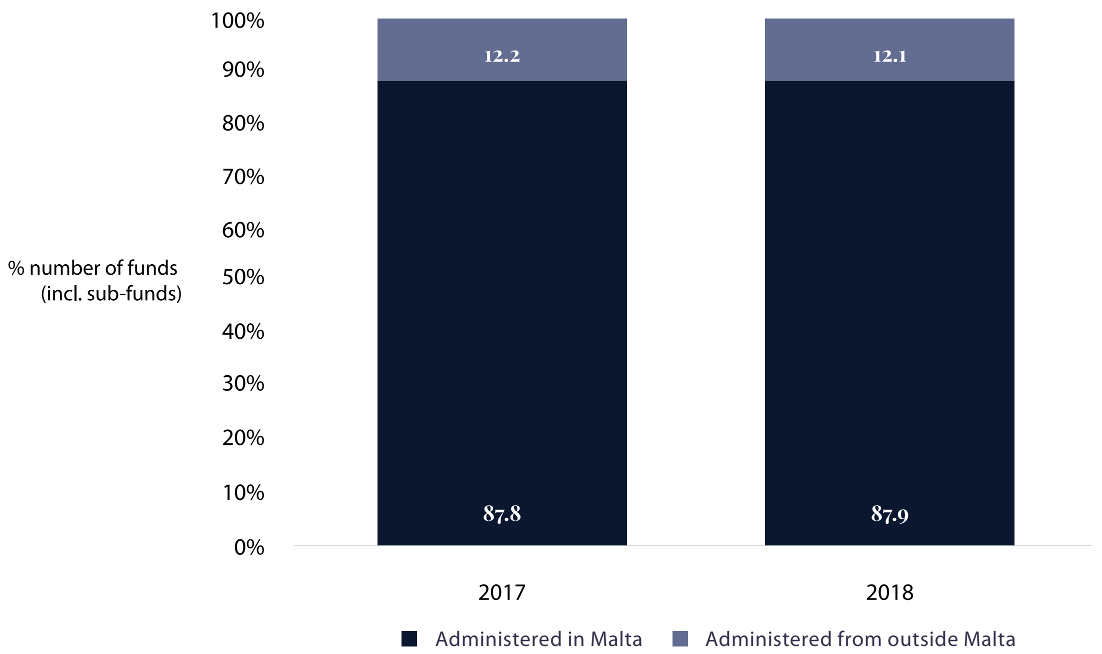
CHART 16: MANAGEMENT OF MALTA DOMICILED FUNDS



Source: Malta Financial Services Authority (2019)

Turning to the administration of funds in Malta, Chart 17 indicates that the number of funds administered in Malta has remained stable relative to the previous year, standing at 87.9% of all locally established funds (including sub-funds). The remaining 12.1% of the funds were administered from outside Malta.

CHART 17: ADMINISTRATION OF MALTA DOMICILED FUNDS



Source: Malta Financial Services Authority (2019)

Turning to the administration of funds in Malta, Chart 17 indicates that the number of funds administered in Malta has remained stable relative to the previous year, standing at 87.9% of all locally established funds (including sub-funds). The remaining 12.1% of the funds were administered from outside Malta.

Non-Malta Domiciled Funds

Non-Malta domiciled funds, which are administered by fund administrators recognised in Malta, registered a net asset value of almost €3.0 billion in 2018, an increase of 15.4% compared to 2017. Assets under management of non-Malta domiciled funds (including sub-funds) managed by fund managers licensed in Malta increased by 9.1% in 2018, from €22.0 billion in 2017 to €24.0 billion in 2018.

OPPORTUNITIES AND CHALLENGES

The emergence of regulatory and supervisory technology (RegTech and SupTech) presents both opportunities and challenges. Financial innovation allows for a more data-driven and pro-active approach which should enhance monitoring of the financial sector and help ensure better outcomes for market participants and consumers. Nevertheless, the move towards a digitalised architecture will make cyber resiliency a core part of the supervisory strategy of regulators and the compliance strategy of market participants. The increased volume of information needed to monitor and evaluate regulatory compliance creates challenges for enterprise data governance, but also opportunities to use the information for better risk management[10].

Increased reporting and compliance obligations placed on market participants often exhibits itself to be a challenge (for example, through the Markets in Financial Instruments Directive (MiFID II)).

At the EU level, Brexit-related risks to business operations continue to be of major concern. Indeed, the uncertain impact of Brexit, on an array of complex legal and regulatory issues, continues to pose a significant operational risk to EU financial markets, for both investors and infrastructures, as the possibility of no agreement is significant.

[10] Refer to Trends, Risks and Vulnerabilities Report (No. 1, 2019) issued by the European Securities and Markets Authority (ESMA)

SECTOR-SPECIFIC ACTIONS

In view of the relatively fast-paced developments taking place within the Securities and Markets sector at the EU and global level, the MFSA is directing its efforts towards the following areas:

- **Strengthening its supervisory capacity.** The MFSA undertakes the supervision of listed companies, securities exchanges and trading venues, with a general market oversight, to ensure market integrity. The efforts in this regard will intensify through investment in the Academy of Financial Supervisors, which should contribute towards enhancing the supervisory capacity of the MFSA. The MFSA will also maintain co-operation with European Institutions with respect to exploring the use of emerging technologies for regulatory and supervisory tasks.

- **Implementing the Securitisation Regulation in Malta.** The Securitisation Regulation, in force from 1 January 2019, is part of the work undertaken by the European Commission under its Capital Market Union Action plan. The Authority is in the process of implementing the Securitisation Regulation in Malta by amending Maltese law accordingly. Additionally, relevant staff members are undergoing specialised training including attending various seminars relating to securitisation.

- **Virtual Financial Assets Act.** During 2018, the MFSA drafted the Virtual Financial Assets Act (Cap 590 of the Laws of Malta) ('VFA'), previously referred to as the Virtual Currencies Act, and submitted it to the Government for the initiation of the necessary parliamentary procedures in line with the legislative process. The Act was approved by parliament and subsequently published on 20 July 2018. The Act came into force on 1 November 2018. It regulates the field of Initial Virtual Financial Asset Offerings and Virtual Financial Assets and makes provision for associated matters.

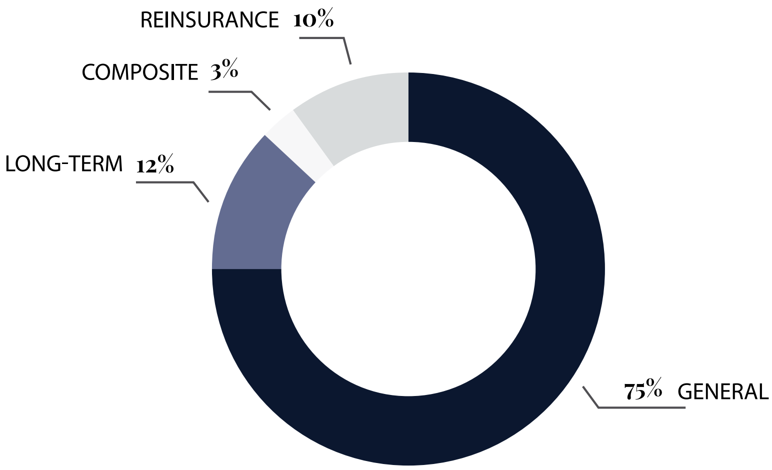
INSURANCE AND PENSIONS

The insurance industry in Malta boasts a mature domestic market, made up of life and non-life insurers, as well as a thriving international sector, including captives and direct underwriters and reinsurers. Despite the low yield environment, underwriting profitability remained positive overall in 2018. While the economic conditions are supportive of growth in the insurance and pensions sector, the high exposure of the sector to fellow EU countries and the high concentration of life insurance and reinsurance industries are areas which could potentially give rise to unprecedented risks. Nevertheless, with its efficient regulatory environment and stable financial services sector, Malta continues to be an attractive destination for insurance companies, including Protected Cell Companies (PCCs).

Composition of the Maltese Insurance Sector

In 2018, the number of undertakings operating within the Maltese insurance sector increased, with a total of 68 undertakings authorised to carry out business activities in terms of the Insurance Business Act (Cap 403). As depicted in Chart 18, most of these undertakings are involved in general business. Indeed, in 2018 there were 51 undertakings authorised to carry out general business, eight long-term business, two composites and seven pure reinsurance undertakings.

CHART 18: COMPOSITION OF THE MALTESE INSURANCE SECTOR IN 2018



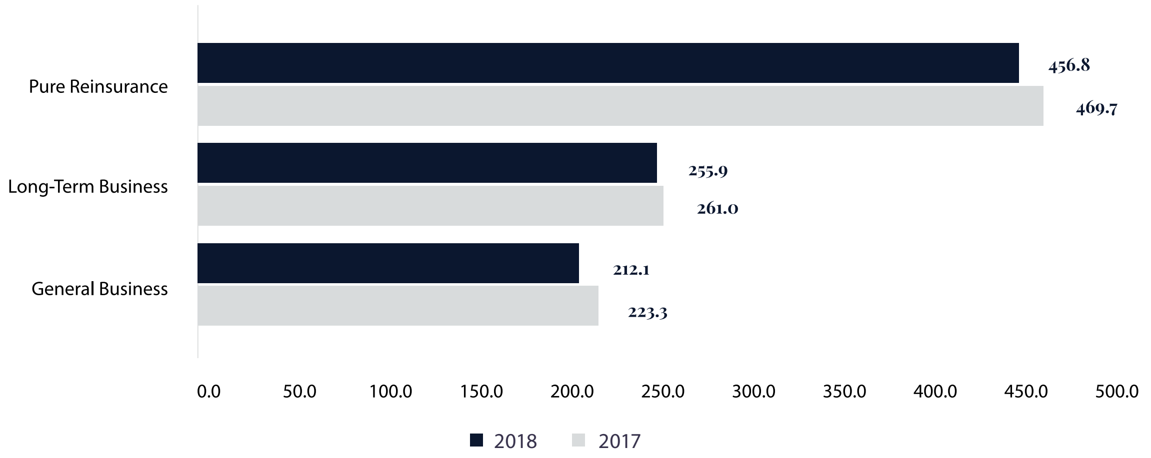
Source: Malta Financial Services Authority (2019)

The growth in the number of undertakings operating within the insurance sector stems from the additional five undertakings that have been authorised to carry out general business in Malta during the year under review.

Solvency

The overall solvency position of insurance and reinsurance undertakings remains high despite a slight deterioration during the year under review. Indeed, the Solvency Capital Requirement (SCR) ratio recorded a marginal decline of 11.2 percentage points and 5.1 percentage points for General and Long-Term Business respectively. As for the Pure Reinsurance sector, the SCR is estimated to have fallen by 12.9 percentage points.

CHART 19: SOLVENCY CAPITAL REQUIREMENT RATIO (%)



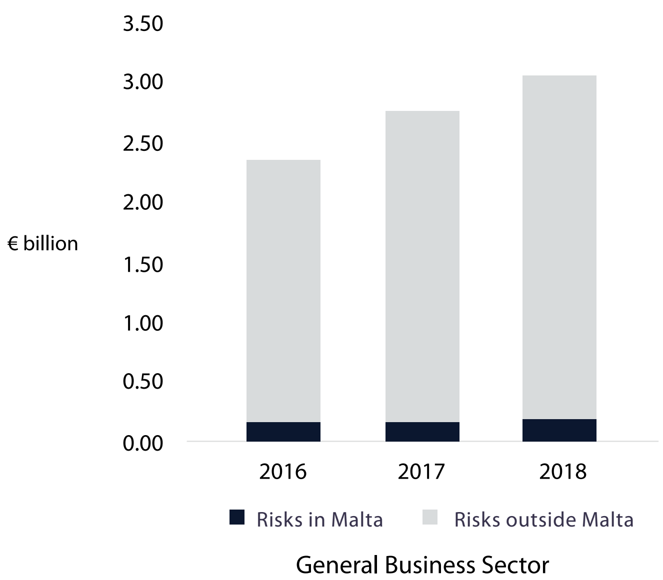
Source: Malta Financial Services Authority (2019)

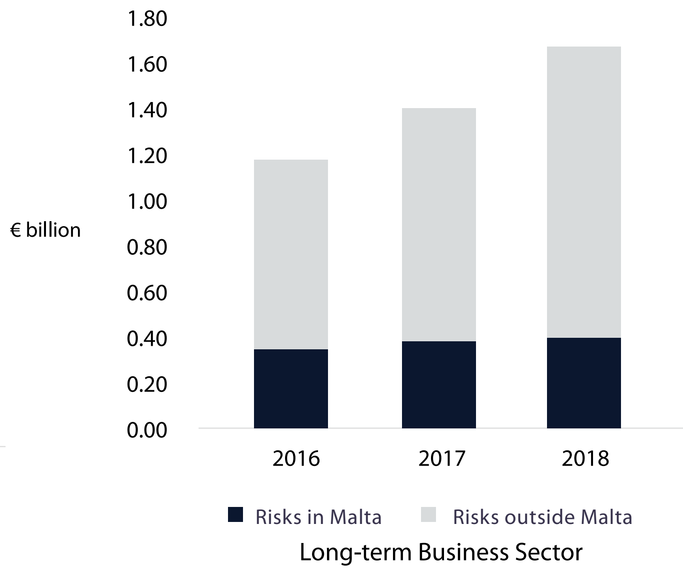
A consideration of the Minimum Capital Requirement (MCR) ratio also points to a fall in the funds held to cover for this requirement. In fact, over the year under review this ratio is estimated to have declined from 607.1% to 568.6% for the General Business undertakings and from 649.4% to 636.5% for the Long-Term Business undertakings. The MCR ratio for Pure Reinsurers also declined from 1067.4% to 1037.4%. Nevertheless, overall the sector remains well-capitalised, indicating that the insurance and reinsurance sector is resilient to potential adverse shocks.

Gross Written Premiums

Despite the challenging environment, the Maltese insurance sector's Gross Written Premiums (GWP) grew by 11.5% within the General Business sector and by 19.3% within the Long-Term Business sector during 2018. Chart 20 illustrates the total GWP for these two sub-sectors within the insurance industry in Malta.

CHART 20: GROSS WRITTEN PREMIUMS





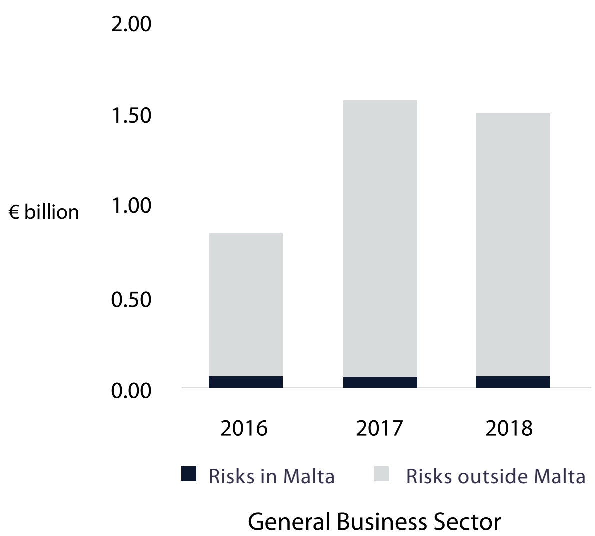
Source: Malta Financial Services Authority (2019)

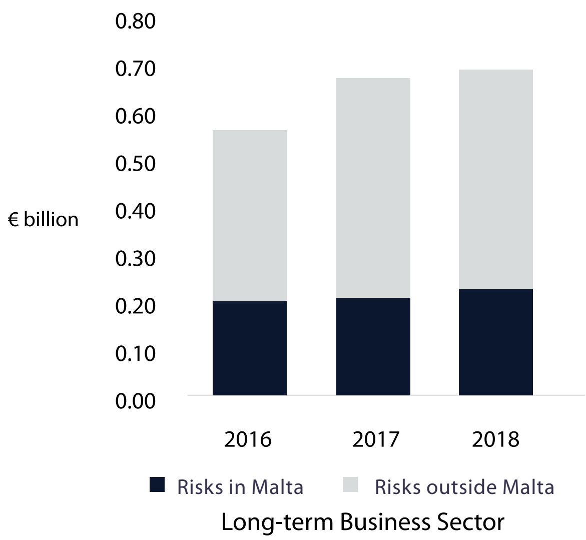
The growth in insurance business is associated with continued robust economic performance, with GWP as a percentage of GDP exceeding 35% in the second quarter of 2018, placing Malta as the country which recorded the third highest GWP to GDP ratio in the EU28[11]. This indicates that Malta has one of the largest insurance sectors relative to the size of its economy, following Liechtenstein and Luxembourg respectively.

Gross Claims Paid

In 2018, a marginal increase of 2.3% was recorded in the Gross Claims Paid (GCP) by the Long-Term Business Sector. In contrast, the GCP within the General Business Sector fell by about 4.8%. These growth rates are well below the growth registered in the GWP, implying an overall improvement in business performance.

CHART 21: GROSS CLAIMS PAID





Source: Malta Financial Services Authority (2019)

[11] Source: EIOPA (2018) Financial Stability Report

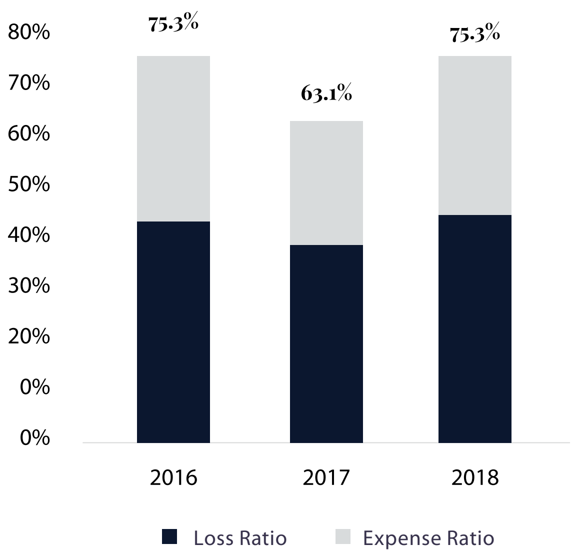
The composition of risks between those originating in Malta and those stemming from outside Malta has remained practically unchanged for the General Business sector, with the share of risks situated in Malta declining from 7.1% to 4.2% over the period under review. The GCP for risks originating in Malta is relatively higher within the Long-Term sector, ranging from 30.6% to 34.9% over the period 2016-2018.

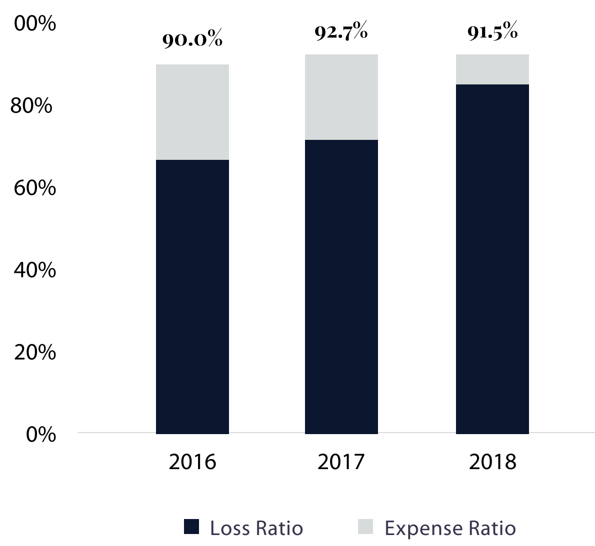
Combined Ratios

Combined ratios are a traditional measure of profitability in the (non-life) insurance sector. This is calculated as the sum of net claims incurred and the net operating expenses divided by net earned premiums. Alternatively, it can be expressed as the sum of the net loss ratio and the net expense ratio[12].

The Combined Ratio for the General Business undertakings writing Direct and Reinsurance Business (other than Pure Reinsurance Business) increased by 12.2 percentage points during 2018, standing at 75.3%. This is explained by the 5.5% growth in losses and the 6.7% growth in expenses relative to premiums.

CHART 22: COMBINED RATIOS FOR THE GENERAL BUSINESS UNDERTAKINGS





Source: Malta Financial Services Authority (2019)

As for the undertakings involved in Pure Reinsurance Business, the combined ratio has remained relatively stable, rising marginally from 90.0% in 2016 to 91.5% in 2018. Chart 22 demonstrates that expenses represent a smaller share of the total combined losses sustained by pure reinsurance undertakings.

In view of combined ratios, which amount to less than 100%, it can be concluded that, despite the low yield environment, underwriting profitability[13] remained positive overall during 2018.

[12] The Net Loss Ratio is defined as the ratio of net claims incurred to net premiums earned whereas the Net Expense Ratio is defined as the ratio of net operating expenses to net premiums earned.
[13] This excludes profits from investments.

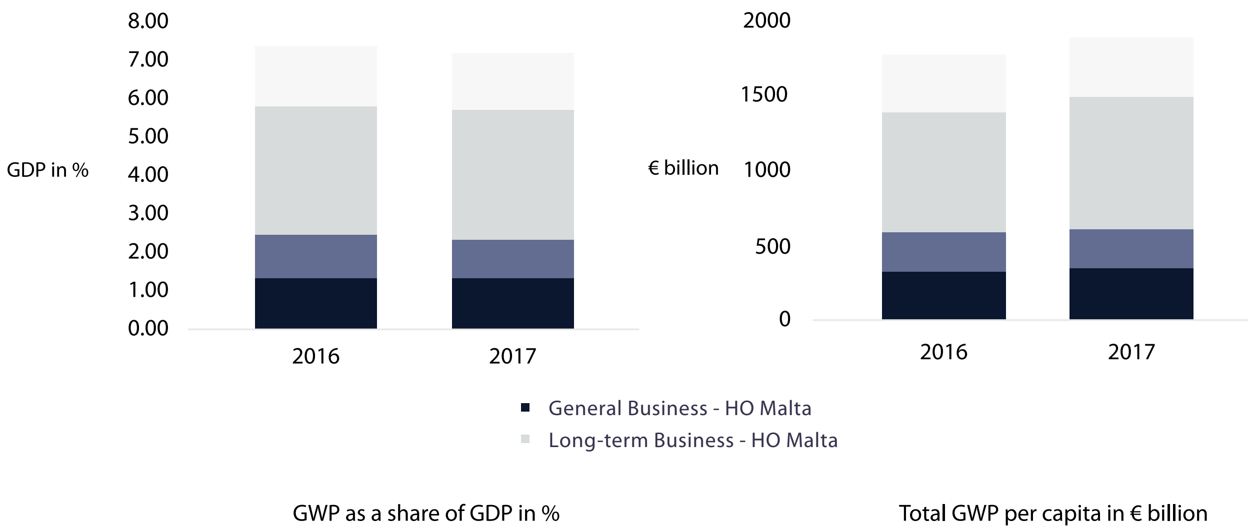
Insurance Penetration Rate and Insurance Density Rate

Figures for undertakings with Head Office outside Malta writing general and long-term business in relation to risks in Malta during 2018 were still unavailable at the time of presentation of this report. Consequently, the analysis of the insurance density and insurance penetration covers the period 2016 – 2017.

The insurance penetration and insurance density rates provide an indication of the size of the insurance market in the country concerned. The insurance penetration rate, which is expressed as the gross written premiums in respect of risks and commitments in Malta to gross domestic product, declined slightly by 0.15% point, from 7.36% in 2016 to 7.22% in 2017. The penetration rate also registered a marginal decline in the general business, from 1.35% in 2016 to 1.33% in 2017. For the long-term business, the penetration rate reached 3.38% in 2017, up by 0.04% from the previous year.

The relative size of the insurance sector differs substantially among European countries. EIOPA (2018) reports the same ratios presented above but takes into consideration the risks which arise both inside and outside Malta. The results indicate that when considering both the life and the non-life business, Malta is recorded to have the third largest insurance market relative to the size of its economy[14].

CHART 23: GWP AS A SHARE OF GDP IN % AND TOTAL GWP PER CAPITA IN € BILLION



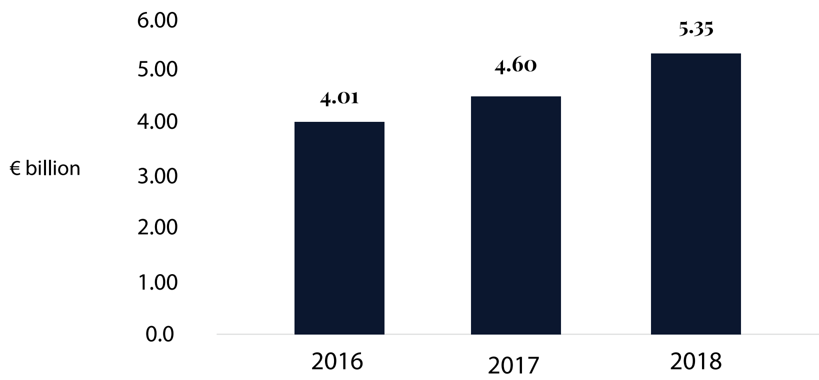
The insurance density, which is expressed as the gross written premiums in respect of risks and commitments based in Malta to population size, increased by almost 7%, from €1,774 in 2016 to €1,895 in 2017. In the general business category, the insurance density surged by 7%, from €326 in 2016 to €348 in 2017. There was also an increase of over 10% in the long-term business category, from €804 in 2016 to €888 in 2017. Information for 2018 was not yet available by the time of publication of this report.

Pensions Sector

The Pensions Sector recorded a growth rate of 11.5% in the number of retirement pension schemes, with these amounting to 58 in total by the end of 2018. The total assets under the management of these schemes grew by about 16.5% during the year under review, standing at €5.35 billion.

[14] Refer to EIOPA Financial Stability Report (June 2018), page 24.

CHART 24: ASSETS UNDER MANAGEMENT OF RETIREMENT PENSION SCHEMES



Source: Malta Financial Services Authority (2019)

OPPORTUNITIES AND CHALLENGES

Higher standards of supervision can be attained through the benefits of supervisory convergence. Supervisory convergence is high on the European agenda[15]. The aim of supervisory convergence is to guarantee a similar level of protection of policyholders and beneficiaries across jurisdictions, regardless of the location of the insurance undertaking's head office. In this regard, the MFSA collaborates with other insurance supervisory authorities and also makes use of important tools provided by the European Insurance and Occupational Pensions Authority (EIOPA), such as the provision of tailored support and feedback on the consistent application of Solvency II. Through the tools used in achieving supervisory convergence, namely peer reviews, bilateral meetings and participation in cross-border co-operation platforms, the MFSA can achieve higher standards in supervision practices.

Technological innovation is perceived to be the major driver of change in the insurance sector, carrying both risks and opportunities. One technology which is likely to change the landscape of insurance is blockchain. The use of blockchain technology, together with improved data analytics, would streamline complex processes and enhance transparency and efficiency through the development of smart contracts, improved risk assessment, fraud detection, information flows and claims handling. This presents an opportunity for insurers to be at the forefront of innovation and create a more attractive service offering. Nevertheless, the introduction of blockchain could also give rise to operational risks, further compounded by complex legacy issues from outdated IT systems.

With consumers generating more and more data and using connected devices, cyber risk concerns are increasing. The demand for such products is slowly increasing across Europe, representing a potential growth area. Insurers act as underwriters of cyber risk, but increasingly are also vulnerable to cyber risk themselves, with consequences for operations and reputation.

Heightened uncertainty regarding Brexit and trade tensions may weigh on confidence and adversely affect growth prospects through lower investment and trade. In view of the many challenges posed by the UK's withdrawal from the EU, due this year, the MFSA is following EIOPA's guidance on the authorisation process and ongoing supervision of undertakings regulated under Solvency II.

Achieving a more sustainable insurance industry contributes to addressing environmental concerns. Sustainable insurance can be defined as a strategic approach where all activities in the insurance value chain, including interactions with stakeholders, are enacted in a responsible manner by identifying, assessing, managing and monitoring risks and opportunities associated with environmental, social and governance issues[16]. Initiatives promoting sustainable investments would further stimulate the move towards a greener and more sustainable insurance industry, while at the same time improve transparency and accountability of climate related risks.

[15] Refer to Supervisory Convergence Plan 2018-2019 issued by EIOPA, available at: https://eiopa.europa.eu/Publications/Reports/Supervisory%20Convergence%20Plan%202018-2019.pdf

[16] Source: EIOPA (2018) Financial Stability Report

SECTOR-SPECIFIC ACTIONS

The Maltese insurance market is sophisticated, as evidenced by the presence of professional reinsurers, captive insurers, protected cell companies (PCC), and one reinsurance special purpose vehicle. Except for eight domestic insurers, the insurance sector writes predominantly non-Maltese risks, mainly in other EU countries. As for the domestic insurers, the International Monetary Fund (IMF) notes that their assets amounted to 37% of GDP at end-2017. Furthermore, these insurers have large exposures to core domestic banks and underwrite a negligible amount of foreign risk.

- **Strengthening the supervisory capacity.** In view of the complexity of the Maltese insurance market, its high exposure to EU countries and the high concentration of life insurance and reinsurance industries, the MFSA will continue directing its efforts towards strengthening the supervision of evolving insurance markets. This involves closely monitoring the dynamic business models adopted by supervised entities.

- **Improving the monitoring of macro-risks and business model analysis in the Risk-Based Supervision Framework.** The existing Risk-Based Supervision Framework (RBSF) for the Insurance and Pensions sector mainly involves the assessment of licensees on the basis of their probability of risk and risk impact. Indeed, the MFSA collects information, evaluates it and monitors the way in which the authorised insurance company is carrying out its business. If any adverse developments are noted, the MFSA is able to intervene in time[17]. Nevertheless, the IMF points out that there is scope for improving the monitoring of macro-risks and business model analysis in the RBSF. Furthermore, the supervisory programme for conduct supervision should be expanded to include banks acting as distributors of insurance and securities products.

Conclusions

The financial services industry is a well-established and integral part of the Maltese economy, playing a vital role within the knowledge-based services sector, having helped to diversify away from lower-productivity and traditional services. Taking into account both the relative size of the sector and the ancillary activities, the Gross Value Added produced is estimated at 11.6% of the total, putting the sector among the highest-ranking contributors of the Maltese economy. Activity in the sector is interlinked with domestic economic activity, but also presents important elements of internationalisation and exposure to conditions, risks and opportunities at the global level. For these reasons, the sector and economy activity as a whole depend crucially on the quality of its regulatory environment for its sustainable growth.

Taking into account both the relative size of the sector and the ancillary activities, the Gross Value Added produced is estimated at 11.6% of the total, putting the sector among the highest-ranking contributors of the Maltese economy.

[17] Refer to The Framework of Supervision of Insurance and Reinsurance Companies issued by Insurance and Pensions Supervision within the MFSA.

04 Supervision and Compliance

Supervision and Compliance

During the year under review, the Authority continued to direct its efforts to promoting and delivering robust frameworks which help ensure that the markets it regulates function well. The Authority is primarily concerned with strengthening its supervisory capacity, ensuring good standards of practice in the financial sector, and preparing for the next generation of financial services by catering for innovative financial market solutions. The next sections explore the activities carried out by the MFSA, in respect of the regulation and supervision of sectors falling under its remit.

CREDIT AND FINANCIAL INSTITUTIONS

The MFSA conducts Banking Supervision on three fronts, namely:

i. responsibilities under the EU Single Supervisory Mechanism (SSM), involving Joint Supervision Team (JST) work in respect of the three Significant Institutions (SIs) and related general On-Site activities;
ii. on-going supervision and supervisory reporting in respect of Less Significant Institutions (LSIs) and oversight of financial institutions outside the scope of SSM;
iii. development of policy in the context of the dynamics of the markets and of the global and local supervisory environment.

The Banking Supervision function within the Authority continued to strengthen its supervisory capacity during 2018, mainly in terms of human resources, to meet the demands posed by regulatory developments and by the increase in the number of licensed institutions.

The team participates in fora, working groups, and networks under the SSM, such as the SSM Supervisory Board, the Risk Analysis Network, the Centralised On-site Inspections Network, the Senior Management Network and the Methodology and Standards Division. Similarly, Banking Supervision is an active member of a number of Working Groups and Task Forces of the European Banking Authority and other EU bodies.

CREDIT INSTITUTIONS

Supervision of Significant Institutions (SIs)

The day-to-day supervision of SIs is conducted by Joint Supervisory Teams (JSTs) composed of members from the European Central Bank (ECB) and the MFSA. There is a JST dedicated to each of the three SIs in Malta - namely Bank of Valletta plc, HSBC Bank Malta plc and the MeDirect Group - as established by relevant legislation.

During the year the JSTs carried out on-going supervision work at the three SIs, with monthly meetings held in relation to each bank. Besides bilateral discussions between the MFSA and the ECB members of the JSTs focusing particularly on supervisory strategy to be adopted with respect to SIs, meetings were held with senior management of the respective SIs.

In addition to the Supervisory Review and Examination Process (SREP) and day-to-day tasks undertaken in line with the defined Supervisory Examination Programme (SEP), the JSTs carried out a number of follow-up assessments on major exercises undertaken in previous years, including on-site inspections. The JSTs further conducted a supervisory dialogue with the respective SIs related to an SSM-wide IFRS9 Thematic review carried out in 2017.

One on-site mission at each of the three significant institutions was carried out during the year. The mission at Bank of Valletta plc focused on operational risk, while those at the other two SIs focused on credit risk.

Supervision of Less Significant Institutions (LSIs)

LSIs are directly supervised by the Authority. This aspect of work caters also for reporting requirements to DG Micro-Prudential Supervision III (DG MS III) of the ECB under the SSM. The supervision of LSIs continued to be undertaken through on-going surveillance and on-site inspections.

Ongoing surveillance activities by the Team during 2018 included a full SREP at one of the LSIs and the commencement of the same activity at another. Thematic assessments on the business model of various high priority and other LSIs were also conducted. On-site inspections during 2018 involved a number of top-down and governance reviews, as well as missions at four LSIs. The MFSA reports regularly to the SSM on its risk analysis of LSIs and notifies any regulatory concerns it may have through the ex-ante notifications process.

FINANCIAL INSTITUTIONS

Supervision of Financial Institutions

The ongoing supervisory oversight of Financial Institutions continued to be conducted mainly through the analysis of quarterly reporting submissions and any other ad hoc submissions made by the institutions. During 2018, Banking Supervision held meetings with the senior management of several institutions to discuss various issues, mostly related to governance and internal controls. Banking Supervision also developed a risk assessment tool to enable its risk-based approach to supervision. Towards the end of the year, an on-site inspection was also carried out at one financial institution.

Supervisory Quality Assurance Function

During 2017, the Board of Governors of the MFSA formally established a Quality Assurance Function (QAF) to provide assurance on the quality of prudential supervision and to underpin the excellence and homogeneity of the Authority's supervisory activities. The QAF achieves its objectives through the evaluation of supervisory deliverables, processes, procedures, methodologies, standards, organisational structures and systems. The QAF is governed by its Quality Assurance Remit as approved by the Board of Governors of the MFSA. Initially, during 2018, the function focused on banking supervision, including authorisation related to banking. Its activities included: planning of reviews, enforcing a culture of quality within the Authority and participating within ECB networks while assisting the ECB in carrying out its reviews of significant banks.

SECURITIES AND MARKETS

Investment services remains one of the fastest growing segments within Malta's financial services sector, with the EU Alternative Investment Fund Managers Directive (AIFMD) expanding market access at a European Level.

Securities and Markets Supervision

The Securities and Markets Supervision function within the MFSA performs the following core functions:

i. monitoring and supervising the applicable licence holders and entities;
ii. safeguarding investors' legitimate interests;
iii. publishing guidance notes to the financial services industry, and;
iv. communicating and liaising with foreign regulators and international organisations involved in financial services regulation and supervision.

The Department is responsible for the supervision of a diverse range of licence holders as well as non-licensed entities. Its objective is to help ensure compliance with the relevant legal and regulatory requirements so that investors' interests are duly protected. Also, it is responsible for the approval process for applicants intending to list on any applicable regulated market and supervision of those entities that are listed on such regulated markets, including on-site and off-site compliance monitoring.

Off-Site Supervision of Investment Firms and Investment Funds

Off-site supervision entails the monitoring of ongoing developments in the business of licensed entities and their compliance with the relevant financial legislation, regulation and MFSA Rules. The focus is on prudential aspects to establish that licensed entities are financially sound by way of holding of sufficient capital reserves in line with business risk and having in place appropriate governance structures.

Through the review of periodic financial returns and statutory reports in 2018, a number of breaches were identified within the capital requirements of supervised entities and were flagged for remediation. During the year, the Off-Site Team engaged with a number of Funds mainly in relation to issues involving valuation, suspensions of Net Asset Value (NAV), breaches, zero NAV funds and funds encountering liquidity issues. The Team also processed statutory notifications and requests in this area.

A risk monitoring framework is utilised by the Team to prioritise the supervisory outcomes attained, so that the focus of resources is on those entities where a greater level of scrutiny is required.

Exchange of information takes place with foreign regulators and other competent authorities and international organisations, in terms of the relevant EU, international, and bilateral country co-operation agreements in force.

The Off-Site Team remained involved in discussions and working groups at a national and European level in relation to the drawing up and implementation/transposition of directives, regulations and technical standards. This includes data gathering and analysis on how specific recommendations could impact Malta's investment services industry.

On-site Supervision of Investment Funds and Service Providers

During 2018, the Funds On-site Team carried out 20 scheduled and five surprise visits. The compliance reviews focused on visits to fund managers, third-party managed and self-managed investment companies.

Recent administrative measures and penalties imposed by the Authority in the Securities sector primarily concerned poor governance oversight and deficiencies in risk management and compliance culture. During 2018, inspections have continued mainly to focus on various aspects of governance, risk and compliance, and reviews of the investment processes. Part of the inspections entailed follow-up visits to ensure effective implementation of remedial measures.

During 2018, the On-site Funds Team issued a detailed Circular on the outcome of compliance inspections held at Fund Managers and Collective Investment Schemes to highlight a number of common weaknesses and share examples of good governance and compliance practices.

On-site Supervision of Investment Firms

During 2018, the Investment Firms team carried out 10 on-site visits to entities holding different category licences. The focus of the visits was to better understand and assess business operations, internal controls and procedures, and to ensure compliance with the relevant rules. In view of MiFID II and MiFIR implementation in 2018, the Authority revised its Rulebooks, namely issuing the new Part BI Rulebook for Investment Firms and the Conduct of Business Rulebook. The team focused also on prudential aspects of the business of supervised entities.

The new Part BI of the Investment Services Rules for Investment Services Providers led the team to intensify its scrutiny of the main business areas of governance, compliance and risk management. Other visits focused on priority concerns related to the supervised entity on a case-by-case basis.

Securities and Markets Supervision (SMSU) found that the majority of supervised entities had acted on the findings identified in circulars issued by the Authority in previous years. However, progress remains to be achieved with respect to the industry-basic principles on governance and compliance including the operations of the Board of Directors and the implementation of compliance monitoring programmes and plans.

Trading Venues/CSDs

In 2018, nine on-site visits and off-site compliance meetings were carried out with respect to Trading Venues and the local Central Securities Depositories (CSD) to review their adherence to the respective requirements contained in MiFID II/MiFIR, and to review the adherence of the CSD to the requirements of the Central Securities Depository Regulation (CSDR).

Following changes in regulation at EU level in 2017, in-depth reviews of applications for authorisation submitted by the local CSD were carried out in 2018 to confirm that it satisfied all the respective requirements under the CSDR. On 17 October 2018, the local CSD was granted authorisation under the CSDR. The local CSD was the eighth CSD to be authorised under the CSDR regime within the EU.

European Market Infrastructure Regulation (EMIR)

On-site visits are conducted to assess the performance of regulated entities in relation to EMIR. The entities to be visited are determined by means of a risk-based model and are issued with a letter, post-visit, detailing shortcomings and recommendations identified by the Authority.

The number of on-site visits, carried out in relation to EMIR in 2018, were 16. Frequently-identified issues during EMIR on-site visits are:

i. incomplete documentation relating to delegation of obligations (such as the delegation of reporting requirements), risk mitigation requirements and written procedures regarding processes for EMIR compliance; and
ii. insufficient evidence of reconciliations of trades reported by their delegates.

From an off-site perspective, entities are monitored continuously by means of a business intelligence tool. When gaps are identified in specific reports, such entities are notified immediately and requested to clarify their positions through official letters. Where there are ambiguities, firms are notified and expected to rectify their position. In 2018, 32 separate cases relating to errors in data submissions were addressed.

Investigations

SMSU undertook a number of investigations. During 2018, the Investigations Team processed eight regulatory actions through the overseeing of relationships with collective investment schemes, investment firms and fund managers, which were identified to be problematic. Investigations arise from a number of circumstances, including investor complaints that may be filed with the licensed entity or the Authority, disputes between parties and the licenced entity, breaches that are not immediately observable, fraud and misappropriation of funds. The main outcomes of activities take the form of memoranda drafted for the decision of the Supervisory Council, as well as the drafting of directives, minded letters and decision notices.

Prevention of Financial Markets Abuse

The MFSA is responsible for safeguarding the integrity and reputation of the Maltese financial markets, in terms of the Prevention of Financial Markets Abuse Act (PFMA). In 2018, six on-site compliance meetings were conducted with issuers whose financial instruments are traded on the Malta Stock Exchange and with investments firms which fall within the scope of Market Abuse Regulation (MAR) in order to review their adherence to the respective requirements.

The Authority analyses trading in financial instruments admitted on Maltese trading venues, taking place both on and off-exchange for possible suspicious activity. During 2018, the MFSA completed 24 preliminary reviews and one full review. At the end of the year, the Authority had 11 pending PFMA preliminary reviews.

There were three appeals pending before the Financial Services Tribunal in relation to insider dealing cases as at the end of the year. The appeals were filed by individuals who were fined by the Authority in 2009 for trading in listed securities when in possession of unpublished price-sensitive information.

During 2018, the Authority also issued circulars related to the implementation of Market Abuse Regulation (MAR).

Securitisation

In 2018, 24 notices submitted by securitisation vehicles and cell companies were processed. This function was taken over from the Conduct Supervisory department of the Authority.

INSURANCE AND PENSIONS SUPERVISION

Supervision of Insurance and Reinsurance Undertakings

The Insurance and Pensions Supervision function is responsible for the supervision of 68 insurance and reinsurance undertakings. Since 1 January 2016, insurance and reinsurance undertakings in Malta have operated under a new EU regulatory regime – Solvency II. During 2018, supervision was conducted through on-site inspections and off-site activities which included regular meetings, telephone conversations and written communication with board members and senior management of licence holders to ensure that the requirements of Solvency II were effectively embedded within supervised undertakings. A number of these engagements focused on governance, risk management and internal control frameworks. During 2018, the MFSA issued guidance to ensure that undertakings were aligned with the Insurance Distribution Directive.

Quantitative and Qualitative reporting and review

With the Solvency II regime fully embedded for insurance undertakings, the team continued to supervise entities in terms of the financial obligations to which they are subject through the submission of reporting templates. The Own Risk and Solvency Assessment, the Regular Supervisory Report and the Solvency and Financial Condition Report, prepared by supervised entities, were reviewed as an integral part of the licence holders' annual supervision and monitoring programme.

On-site Visits

During 2018, 10 on-site inspection activities were conducted, in relation to insurance and reinsurance undertakings primarily focusing on governance issues, including the effective implementation and oversight of key and critical/important functions, internal control frameworks, the Own Risk and Assessment process and the prudent person principle.

Own Funds Approvals

During 2018, the Authority approved an application from one insurance undertaking for the use of ancillary own funds. 16 applications relating to the assessment and classification of own-fund items were also approved.

Supervision of Insurance Groups

In terms of the Solvency II Directive, all insurance and reinsurance groups subject to group supervision are required to have a group supervisor appointed from among the supervisory authorities involved. At the end of

2018, the MFSA was the group supervisor for two international insurance groups and a member of the college of supervisors of four international insurance groups. The Authority organised College meetings for the two groups which it supervises which were attended by representatives from three European National Competent Authorities as well as a representative of EIOPA.

Passporting Activities

During 2018, engagement with insurance undertakings in relation to passporting activities carried out in EU jurisdictions continued to ensure that they implemented an effective system of governance and a robust risk management system to adequately manage material risks arising from such business activity. The team also actively engaged with the relevant host supervisors on a regular basis, exchanging information on a bilateral basis or through the colleges of supervisors or other specific EIOPA co-operation platforms.

Engagement with Statutory Auditors

Throughout the year meetings were held with the statutory auditors of insurance and reinsurance undertakings to discuss the audit methodologies and corporate governance matters.

Supervision of Insurance Intermediaries

Insurance and Pensions Supervision (IPSU) is responsible for the supervision of various categories of insurance intermediaries, mainly enrolled insurance brokers, insurance agents and managers and, to a lesser degree, for tied insurance intermediaries. As in previous years, during 2018 the IPSU continued with the registration of persons registered in the Brokers, Manager and Agents Register as well as the continuance of enrolment of persons in the Tied Insurance Intermediaries. A total of 14 on-site inspection activities of insurance intermediaries as well as off-site supervisory meetings were held. Furthermore, in order to enhance effective supervision further, the Business of Insurance Intermediaries Statements was amended to capture additional information.

Insurance intermediation activities in Malta were affected by the transposition into national law of the Insurance Distribution Directive (IDD), a new EU legal framework for insurance distribution. Primarily, the IDD regulates the information that distributors should provide to their customers, imposes conduct of business and transparency rules and clarifies the rules for cross-border business. Additionally, it includes new requirements for selling insurance products which incorporate an investment element, to ensure a level of protection similar to other investment products regulated under MiFID II. The IPSU engaged with insurance intermediaries during the year to ensure that they were aligned with the IDD.

Supervision of Pensions

In 2018 the MFSA continued to focus on the adherence by supervised entities in accordance with the Retirement Pensions Act, supervising 55 Retirement Schemes, two Retirement Funds and various service providers, including 16 Retirement Scheme Administrators (RSAs). It also answered queries and representations from the market and the market association regarding applicable rules.

On the basis of the feedback received related to the consultation document issued in 2017, proposing various amendments to the pension rules issued under the Retirement Pensions Act, the Team issued a second consultation document in November 2018, mainly to clarify the applicability of rules and material changes proposed to the regime of member-directed schemes. This was followed by a statement issued on 28 December 2018 outlining the comments received from the two consultation rounds.

In October 2018, a separate consultation document highlighted the main changes proposed to the Retirement Pensions Act to transpose the 2016 EU Directive on the activities and supervision of providers of occupational retirement pensions (IORPs).

European Insurance And Occupational Pensions Authority (EIOPA)

The year under review saw active participation in the work of EIOPA on a range of issues including a co-operation platform for various supervisory authorities of undertakings carrying on business in various EU jurisdictions. An oversight bilateral meeting was held between EIOPA and the MFSA where topical supervisory issues were discussed.

CONDUCT SUPERVISION

The MFSA's Conduct Supervisory Department oversees the way in which firms - namely those providing services in the areas of banking, insurance, investments, company service providers and trustees & other fiduciaries - design their products and services, as well as how they manage their relationship with consumers. This serves to increase the level of trust that consumers place in the financial services sector, thereby contributing to its growth and long-term sustainability.

The high-level objectives of the MFSA in terms of conduct supervision are:

i. setting up a regulatory framework that secures appropriate consumer protection in financial services;
ii. a pre-emptive supervisory regime which addresses potential or emerging risks for financial consumers;
iii. setting up an operational regime to strengthen the responsibilities of regulated persons in treating customers fairly.

Investment Firms Conduct Supervision

During 2018, the Investment Firms Conduct Supervision Team followed up from the thematic review regarding client fact-finding processes, which was undertaken during the previous year, to assess the appropriateness and suitability of the products and services being provided to them. In this context, the Team assessed documentation being utilised by supervised entities and concluded three focused on-site inspections, resulting in feedback to the supervised entities.

The MiFID II came into effect on 3 January 2018. Following this the Team undertook 27 on-site inspections among a broad range of Licence Holders varying in size, type and business models, representative of the sector as a whole. The inspections assessed the status of measures implemented in relation to the Conduct of Business Rulebook requirements issued by the Authority in December 2017. The visited firms were informed of the main findings of the inspection enabling them to take corrective actions as needed.

As from July 2018, the European Securities and Markets Authority (ESMA) triggered product intervention powers to restrict risks related to contracts for differences in business and to prohibit the offering of binary options by EU-based forex firms. Off-site reviews and on-site inspections were undertaken at three firms to monitor adherence with these measures. The inspected firms were informed of the findings for the necessary corrective actions to be taken.

Other activities included off-site reviews and provision of guidance to investment firms regarding measures imposed by ESMA in relation to its product intervention powers. The Team contributed, from a conduct perspective, to the work of other units within the Authority including in the surrender of licences, integration and re-organisation of businesses, and the extension of investment services licences and review of revised/updated business models. Guidance to the industry was provided in the compilation of the Report relating to the Best Execution Requirements under MiFID II. The Team has also participated in ESMA meetings, coordinated replies to ESMA surveys and issued related circulars to the industry.

From a policy perspective, the team worked in task forces on Brexit and on the proposed sustainability regulations.

Banking Conduct

During March and April 2018, the Banking Conduct Team carried out a mystery shopping exercise in 28 branches of four of the main domestic credit institutions, spread over 15 localities, to gather first-hand evidence of the retail customer experience in opening a bank account. The exercise assessed:

i. the suitability of the product offered by the credit institutions following a request made by the customer to open a bank account;
ii. the adequacy of information and disclosures provided to the customer, and;
iii. the adherence to conduct-related provisions arising out of the Payment Accounts Directive and the Payment Services Directive.

The exercise uncovered instances where:

i. written information on the bank accounts was not available or was not delivered to the customer;
ii. the bank account characteristics and conditions were not explained by the branch representatives, who instead invited the customer to look for the information on the bank's website;
iii. lack of knowledge by the branch representatives on basic banking concepts as well as on the credit institution's products, leading to the provision of wrong verbal information;
iv. inconsistency of information provided, sometimes even within the same branch, concerning the supporting documents to be provided;
v. different treatment for non-EU citizens residing in Malta; and
vi. the lack of implementation of requirements arising from the Payment Accounts Directive, chiefly to provide the payment account with basic features.

The Authority highlighted these shortcomings to the entities involved and the remedial action expected to be taken, and issued a Circular to the industry.

Financial Promotion and Risk Assessment

The Financial Promotion and Risk Assessment Team is mainly involved in monitoring the promotional efforts of regulated entities and identifying potential risks arising from their activities.

During 2018, the team continued actively to monitor the promotional efforts of regulated entities. It requested nine investment firms, five insurance intermediaries, three credit institutions and nine financial institutions to amend promotional material relating to adverts:

- enticing clients to purchase a 'Black Friday' offer;
- not containing a licensing statement and relevant risk warnings;
- on websites indicating MFSA as an entity to which the website pertains and displaying the MFSA's logo;
- depicting incorrect information on measures under ESMA product intervention powers;
- promising a gift not related to financial services;
- providing incentives to persons to transfer their holdings through a bonus;
- not in line with the Consumer Credit Directive; and
- not in line with the MFSA notice on advertising for deposits.

Direct liaison took place with the Malta Consumer and Competition Affairs Authority in the review of adverts by credit institutions which were deemed not to be in line with the requirements of the Mortgage Credit Directive.

In order to identify potential risks/trends which may be posed by activities of Regulated Persons, data was collected on a quarterly basis from licensed entities to analyse:

- complaints received by MiFID firms (including complaints referred to the Office of the Arbiter for Financial Services);

- trends in passporting, financial innovation, retail investor behaviour and top complex products in the regulated entities' product suite;
- instruments provided by investment services providers.

The collection of this data enables the:

- reporting to ESMA (through its Financial Innovation Standing Committee) of information relating to complaints, retail investor trends and market monitoring;
- prevention of customer harm through the analysis of investment trends and of products being mainly sold to retail clients, also under the purview of MIFID II.

During 2018, the Team submitted the European Commission questionnaire on the 'Evaluation of the Payment Accounts Directive' which covered comparison websites, payment account switching and payment accounts with basic features. This necessitated the collection of data from six major domestic credit institutions.

Trustees and Corporate Services Providers Supervision

During 2018, the Team continued work on the thematic review, which is based on the principle of segregation of funds. This involves a structured and extensive review of the information obtained during the 17 focused on-site inspections carried out at authorised trustees. This thematic review is expected to be finalised in 2019 and it is envisaged that following an examination of the data, findings and identification of patterns, a circular will be issued to the industry detailing the main findings. Further supervisory action might be taken on a case-by-case basis.

A data collection improvement exercise was undertaken during the year, whereby the annual compliance return for trustees and company service providers was extended to remove the need for other data collection efforts.

Representation on European Supervisory Authority (ESA) Committees

The Authority is represented on the four ESA Committees, whose members met four to five times during 2018:

- Supervisory Convergence Standing Committee, established by ESMA to build a common supervisory culture and fostering convergence and consistency in the application of EU legislation as well as the promotion of consistent procedures and approaches throughout the Union with the aim of reaching similar outcomes;
- Investor Protection and Intermediaries Standing Committee, which works on all topics relating to the provision of investment services and activities by investment firms and credit institutions under the MiFID framework;
- Consumer Protection and Financial Innovation, an EIOPA committee which aims to enhance European convergence in legislation and supervision in the field of insurance and occupational pension schemes;
- Financial Innovation Standing Committee, set up by ESMA to achieve a coordinated approach to the regulatory and supervisory treatment of new or innovative financial activities. During 2018, this Committee conducted extensive work on crowdfunding, distributed ledger technology, Initial Coin Offerings (ICOs), virtual currencies, structured retail products, MiFIR product intervention powers and market monitoring.

ENFORCEMENT

The Enforcement Directorate within the MFSA has both an investigative as well as an enforcement role. It is responsible for reviewing the actions and conducting investigations of licence holders who have, or are suspected of having, committed compliance failures, misconduct or any other breach of the financial services legislation. It also investigates persons carrying out financial services activities without having the necessary licence or authorisation, as well as suspicious or dubious schemes, and taking appropriate action when necessary. With the introduction of the Single Supervisory Mechanism, Enforcement now forms part of the Enforcement and Sanctions Network of the ECB.

During 2018, the Enforcement Directorate continued to review 28 cases carried forward from previous years and opened 35 new cases. Of the cases dealt with during 2018, eight concerned licensed holders, while 27 were non-licensed holders. The main issues investigated included: cases of mis-selling, misappropriation of funds to the detriment of investors; the provision of investment or payment services without authorisation; providing banking activity without a licence; the provision of insurance intermediary services without authorisation; issues of fitness and properness, especially in relation to directors of licence holders; deficiencies relative to poor corporate governance; compliance and risk management and suspicious, dubious and/or fraudulent schemes; and issues related to cryptocurrency.

Following investigations carried out in 2018, the MFSA issued seven warnings to the public concerning unauthorised or doubtful financial services or suspected fraudulent schemes related to cryptocurrency. These warnings, which were published on the MFSA website and distributed to the press, were issued in order to alert and protect consumers of financial services.

Prevention of Money Laundering

The Financial Intelligence Analysis Unit (FIAU) is a separate entity to the MFSA, and is responsible for compliance by financial services operators under the provisions of Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) legislative provisions.

As a supervisory authority, the MFSA acts on behalf of, and jointly with the FIAU, in conducting AML/CFT supervision of financial services licence holders. This supervision is conducted by means of a dedicated team of AML/CFT supervisors within the Enforcement Department. All phases of AML/CFT supervision, from the sectoral risk assessments to decisions on breaches and the imposition of sanctions, are co-ordinated and integrated in a joint supervisory regime. The main purpose of AML/CFT supervision, conducted jointly by the MFSA and FIAU, is to monitor compliance by financial services licence holders with the applicable AML/CFT laws, regulations and the Implementing Procedures (IPs) issued by the FIAU, and where necessary to take appropriate action, including remedial, enforcement and sanctioning measures. The MFSA Money Laundering Reporting Officer is also part of the Enforcement team, while the Director of Enforcement acts as Deputy Chairman of the FIAU.

During 2018, the MFSA and FIAU carried out 17 joint on-site AML/CFT supervisory visits to MFSA licence holders from different sectors, mainly Credit Institutions, Company Service Providers (CSPs), Financial Institutions, Investments Services Providers and Trustees. On-site supervision is carried out on a risk-based approach, involving the identification of Money Laundering/Terrorist Financing risks which take into consideration information provided by the subject persons and other external factors. AML/CFT resources are subsequently allocated to address the risks identified.

In addition to giving advice and assistance on AML/CFT to other functions within the Authority in 2018 the Enforcement team was involved regularly in a number of AML/CFT training events for supervisors, the police, prosecutors from the Office of the Attorney General and members of the judiciary.

Court Investigations / Freezing Orders

In 2018, the MFSA processed 64 Freezing Order Requests, 11 Criminal Investigation Department requests, two Europol requests and 15 Investigation Orders. Responses in relation to the above-mentioned 'requests for information' were provided to the Asset Recovery Bureau (ARB), Police, Attorney General's Office and the Court Registrar.

International Sanctions

During the year, the MFSA continued to follow and keep up to date with international financial sanctions issued from time to time by the European Union (EU), the United Nations Security Council (UNSC) and through national legislation, providing advice and assistance both to MFSA staff and licence holders on sanctions-related matters. The MFSA is represented on the Sanctions Monitoring Board (SMB), established within the Ministry of Foreign Affairs, closely working on various sanctions-related matters. Sanctions are also published on a dedicated page of the MFSA website: https://www.mfsa.com.mt/firms/international-affairs/international-sanctions/

The MFSA published five notices in 2018 and circulated them to local financial services licence holders to inform them about sanctions in force and their compliance obligations.

Reporting on Frozen Assets

In line with EU reporting obligations for Member States, and other international commitments, the MFSA compiles information on the amounts of frozen funds held by local financial institutions and transmits the information to the Sanctions Monitoring Board (SMB). No frozen assets were reported by local financial institutions in 2018.

Whistleblowing

The Protection of the Whistleblower Act (CAP. 527) aims to provide a framework for the protection of persons who expose improper practices such as misconduct and/or dishonest or illegal activity in an organisation.

In 2018, the MFSA received one report which qualified as a whistleblowing report in terms of the Protection of the Whistleblower Act.

Administrative Measures and Penalties

A list of Administrative Measures and Penalties issued by the MFSA is available in Appendix VII.

RESOLUTION

Resolution Planning

During 2018, the Resolution Team contributed to the drafting of resolution plans for systemic banks, in collaboration with the Single Resolution Board (SRB) which has the ultimate responsibility for this group of banks. Data from banks was collected, verified and analysed together with other information obtained from credit institutions.

Data was also collected for resolution planning of non-systemic banks. Although the responsibility for non-systemic banks resides with the Maltese Resolution Authority, the SRB was consulted on these plans due to their oversight function for such banks.

Resolution Contribution Collection

The annual process to collect ex-ante contributions from banks operating in Malta for the Single Resolution Fund (SRF) was completed. The calculation of each individual bank's contribution was calculated by the SRB, based on data collected by the Resolution team, who also liaised with banks to make adjustments where necessary. The team was responsible for collecting these contributions which were in turn passed on to the SRF. Moreover, the team was responsible for collecting the annual contributions for institutions which are out of the scope of the SRF but within the scope of the Bank Recovery and Resolution Directive (BRRD). The latter contributions were collected for the National Resolution Fund, which is administered locally.

Work at EU Level

During 2018, discussions at the European Council, related to the European Commission's proposed changes to the BRRD and the Single Resolution Mechanism Regulation (SRMR), ensued. The MFSA represented Malta in these meetings and provided technical and legal analysis to the Ministry for Finance on positions to adopt on the proposed changes to the BRRD and SRMR. It participated in a number of committees, working groups and task forces formed under the EBA and SRB. Moreover, the Resolution Team assisted other Authorities by providing advice on matters within its remit when comments were requested, or when a Malta position was adopted.

During the year, legal opinions and advice were given on different pieces of legislation, including the transposition of certain articles of the BRRD and the re-drafting of the bank creditor hierarchy to reflect Article 108 of the BRRD. This also comprised the answering of various queries sent by other local and foreign authorities, institutions and law firms. Moreover, following the publication of the BRRD, the EBA was given the mandate to issue guidelines with respect to certain articles of the Directive. Analysis on how to comply with these guidelines was also carried out by the team.

Other Activities on a National Level

The Resolution Committee, which is the decision-making body on resolution matters, met regularly during 2018. The Committee was briefed by the Resolution Team on important issues to be discussed at the meetings and, when necessary, the Committee members gave opinions, took decisions or adopted reports.

Discussions took place with other authorities on Memoranda of Understanding, information sharing agreements, and crisis management issues. Advice and technical support were given to the Ministry for Finance on issues related to resolution, while the Depositor Compensation Scheme and Investor Compensation Scheme were assisted as necessary in light of the synergies existing between the two.

The Resolution Team provided input to the IMF Financial Sector Assessment Programme (FSAP) both during the scoping mission in the first half of the year and the main mission in September 2018. Responsible for coordinating the Crisis Management and Safety Net part of the FSAP, the Team held meetings with IMF representatives and provided replies to questionnaires in coordination with the Central Bank of Malta and the Ministry for Finance. The Technical Note prepared by the IMF on Crisis Management and Safety Nets was also reviewed by the Resolution Team.

FINANCIAL STABILITY

Institutional Framework

Within the framework of the European System of Financial Supervision (ESFS), the MFSA co-operates closely with the European Systemic Risk Board (ESRB), the Joint Financial Stability Board (JFSB)[18] and the Central Bank of Malta to ensure the overall soundness of the domestic financial system.

The ESRB General Board held four meetings in 2018, focusing mainly on the upward pressures on risk premia in global markets, low profitability and overcapacity in the EU-wide banking system, credit and real estate price dynamics across the EU countries, and the need to establish a broader macroprudential toolkit for insurance business. Specific activities undertaken by the ESRB in 2018 included:

- a recommendation addressed to ESMA and to the European Commission on actions to address systemic risks related to liquidity mismatches and the use of leverage in investment funds; and
- research and evaluation work in several areas including, cyber risks, EU derivatives markets, interoperability of Central Counterparty arrangements, vulnerabilities in the EU commercial real estate sector, EU shadow banking, and macroprudential instruments for the insurance sector.

[18] The JFSB is constituted in terms of ESRB Recommendation (ESRB/2011/13) on the macro-prudential mandate of national authorities as transposed in the Central Bank of Malta Act. The Board is composed of representatives from the Central Bank of Malta and the MFSA. A representative of the Minister for Finance also participates as a non-voting observer at meetings of the JFSB.

The JFSB met five times during the year to discuss ongoing issues and provide policy guidance to the relevant authorities. Highlights of its work in 2018 included:

- the approval of periodic decisions related to the macro-prudential buffers emanating from the CRR/CRD package, including the calibration of the Counter-Cyclical Buffer Rate for Malta and the Other Systemically Important Institutions (O-SII) buffer;

- discussing a number of new borrower-based measures including the introduction of loan-to-value and debt-service-to-income ratios to mitigate against the build-up of risk in the residential real estate sector, leading to a consultation process to be carried out during the first half of 2019.

The Financial Stability Team within Regulatory Development continued its regular monitoring of all sectors of financial services activity in 2018. Among other activities, it carried out assessments on external risks potentially impacting the financial sector, which were in turn shared with the technical committees of the ESRB and MFSA supervisory teams.

The macro-prudential dimension was a main focus of the IMF's Financial Stability Assessment Programme (FSAP) for Malta carried out in 2018. The FSAP evaluated a range of tools and techniques used, including:

- the inputs of macroeconomic and sector-wide monitoring into the supervisory process;

- the use of micro data from supervisory returns towards the calculation of key indicators used for macro evaluations of banks' performance;

- tools to identify and track areas of stress in the financial system and their effectiveness in deriving positive leads and recommendations to supervisory units.

The FSAP based its network analysis of financial system and contagion risk using MFSA data.

Enhancing Intelligence and Analytical Tools

The prevention and mitigation of systemic risk requires supervisory authorities to understand elements of the financial sector more vulnerable to adverse financial shocks. These may include interconnectedness among financial institutions, moral hazard and misaligned incentives, or banking sector size and concentration. In 2018, the Authority carried out a number of projects aimed at enhancing macro-prudential supervision by using micro-supervisory information, as follows:

- Enhancement of Financial Stability related data and indicators: Work in this field was ongoing in 2018, and also reflected demands from the ESRB and ECB's risk surveillance programme as well as from IMF's Financial Sector Assessment Programme and concerned both banking and non-banking sectors. Work in this area also focused on emerging threats to financial stability such as climate change and cyber risk.

- Enhancing data processing capacity and deployment of business intelligence tools: A business intelligence solution for macro-prudential monitoring purposes was commissioned in 2018; it has significantly enhanced capacity in terms of data analytics, data aggregation and automated reporting.

- Interconnectedness Modelling of the Maltese financial system: A pilot network model was developed in-house in 2018, enabling the oversight of a given entity to be assessed in the context of the externalities the entity imposes on or experiences in the sector as a whole. In 2019, this will be further upgraded to incorporate a more advanced real time functionality based on data collection, calculation of exposures based on a specific matrix and running simulations. This will allow the simulation of the iterative effects of distress in any of the players modelled and the quantification of key systemic concepts at an entity level.

- Study of Shadow Banking: This work stream, which follows international best practice, particularly the guidance given by the Financial Stability Board (FSB), continued in 2018 with the development of a shadow banking composite indicator and further enhancement of the methodology for the assessment of shadow banking entities. Entities classified as shadow banking entities will later on be included in the network model so as to capture their links with other entities.

- Stress testing models: Newly-developed stress testing tools, to assess the resiliency of households in view of relevance to the bank lending sector, started being used during 2018. With the help of external expertise from other European supervisory bodies, the Team has plans to develop a stress testing tool to assess individual bank resilience to extreme but plausible macro-financial shocks. During 2018, the Team also worked closely with the IMF on stress testing related to domestic banks' solvency and liquidity positions, as part of Malta's Financial Sector Assessment Programme (FSAP).

- Cyber threats and financial stability: Financial stability risks arising from cyber security threats are an increasingly critical element in the Authority's supervisory strategy. The MFSA is collaborating with regulatory counterparts on this front, working on guidance emanating from the ESRB and conducting fieldwork at a national level.

The Risk Monitoring Cycle

The risk monitoring cycle takes an active approach to the assessment of risk levels in the most systemically-relevant areas of the financial sector. The main outcomes and recommendations presented to the Supervisory Council during 2018 concerned the following issues:

- Low Interest Rate Environment: Although global concerns that pressures on financial sector profitability, in the ongoing prolonged low interest environment, could result in the acceptance of additional risks in search of yield, generally financial institutions in Malta are registering healthy levels of profitability. Core banks and domestic insurance undertakings recorded returns on equity (ROE) and returns on assets (ROA) that were above EU levels. The likelihood of a reversal in the monetary policy stance during the second half of 2019 looks more remote but, nevertheless, this risk is closely monitored by the Authority.

- Real Estate market developments: No major emerging risk to financial stability emanating from this sector was identified, as developments in prices and market turnover are underpinned by economic fundamentals. Nevertheless, the Authority remains vigilant in monitoring exposures to the real estate market and has collaborated with the Central Bank of Malta on the implementation of additional policy measures to regulate financial institutions' lending policies. Towards the end of 2018, a draft Directive on Borrower Based Measures (BBM) was issued for consultation, with an expectation to come into force in the first half of 2019. The measures are intended to maintain healthy practices within residential real estate lending, to mitigate against future imbalances.[19]

- Asset quality: Mainly underpinned by favourable economic performance, the core domestic banks' non-performing loans (NPL) ratio continued to decline in 2018, to stand broadly in line with the EU average. Amendments to MFSA Banking Rule 09/2019, introduced in January 2017, will continue to act as an incentive for banks to deal with remaining legacy NPLs.[20] Coupled with the proposed EU regulation on non-performing loans this is expected to positively influence asset quality in the future.[21] Domestic insurance companies remain conservative in their investment decisions, with significant portfolio proportions invested in sovereign bonds (mainly domestic) and liquid assets.

[19] Consultation on the proposed directive on Borrower Based Measures. https://www.centralbankmalta.org/file.aspx?f=71986

[20] BR/09/2019 Measures Addressing Credit Risks Arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions Authorised under the Banking Act 1994. https://www.mfsa.com.mt/firms/regulated-firms/credit-institutions/regulation/rules/

[21] REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on amending Regulation (EU) No 575/2013 as regards minimum loss coverage for nonperforming exposures.

- Deposits held by non-core and international banks: the reliance of these institutions on deposit funding is limited, albeit increasing, which is attracting attention from the Authority in view of the attendant risks.

- Geopolitical risks: In 2018 these were mainly characterised by Brexit developments and the unfolding of the Turkish Lira crisis. The oversight team examined various possible channels of contagion to the domestic financial system and carried out regular monitoring of exposure levels to the UK market, which, from a financial stability point of view, appeared to be contained.

Technical Collaboration at EU level

Technical collaboration at the EU level took place at two fora:

- ESRB works streams: The MFSA continued to contribute to the ESRB and ECB work programme through participation in its working groups, namely the Instrument and Analysis working groups, the Advisory Technical Committee and the General Board. The Oversight Team is responsible for the implementation and maintenance of the ESRB recommendations within the MFSA. In line with these responsibilities, internal assessments are regularly carried out in terms of the Recommendations on US Dollar funding (ESRB 2011/02); on lending in foreign currency (ESRB 2011/01), and on the funding of credit institutions (ESRB 2012/2).

- ECB Financial Stability Committee (FSC) work streams: The MFSA is represented on the ECB's Financial Stability Committee under its SSM composition. This Committee supports the decision-making bodies of the ECB in fulfilling their tasks in the field of prudential supervision of credit institutions and the stability of the financial system. In addition, technical representatives also participated in the Committee's technical working groups, namely the Macro-prudential Policy Group and the Macro-prudential Analysis Group, the Statistics Technical Committee and the Risk Analysis Network.

Collaboration with Other International Institutions

During the year under review, teams from various regulatory units of the MFSA continued to support periodic institutional reviews of the national supervisory framework and financial system. These were carried out by various credit rating agencies, as well as the IMF's Article IV mission and various work streams related to the 2017 European Semester on economic policy co-ordination. Areas discussed in these fora centred on the main risks and challenges to the banking sector, including progress on resolving legacy non-performing loans, structure of the sector and potential contagion risks and supervisory concerns with respect to real estate and mortgage loans. Other discussion points included risks and challenges to the wider financial sector, including credit intermediation, the holding of debt in the non-banking financial sector and inter-company lending in the non-regulated sector as well as risks arising from Brexit.

05

Operational Overview

Operational Overview

PEOPLE & CULTURE

The People & Culture function provides the Authority with the human resource capabilities that are essential to the fulfilment of its mission. It aims to attract and retain the required talent by striving to render the Authority an employer of choice for suitably qualified and experienced professionals. It also serves the training and development needs of employees, supporting them in the progression of their career paths.

The renaming of the MFSA's human resource function to People & Culture, places the Authority's employees and other stakeholders at the very heart of its mission. It also emphasises, through the culture aspect, the drive being undertaken to bring about change and organisational growth. In renaming the function, the MFSA has also delineated vital guiding principles that will drive its people operations. As a starting point, projects and initiatives such as policy development, recruitment, training and performance management will be driven in line with the MFSA values – integrity, trustworthiness, dependability, independence and excellence. In addition, the uptake of change will be achieved through a business partnering concept, which will see more outreach and a consistent application of initiatives. Technology will play an important role in the achievement of set targets and objectives.

In renaming the function the MFSA is placing its employees and other stakeholders at the very heart of its mission.

TOTAL OVERSEAS TRAINING

1,170

HOURS

307

NUMBER OF EMPLOYEES

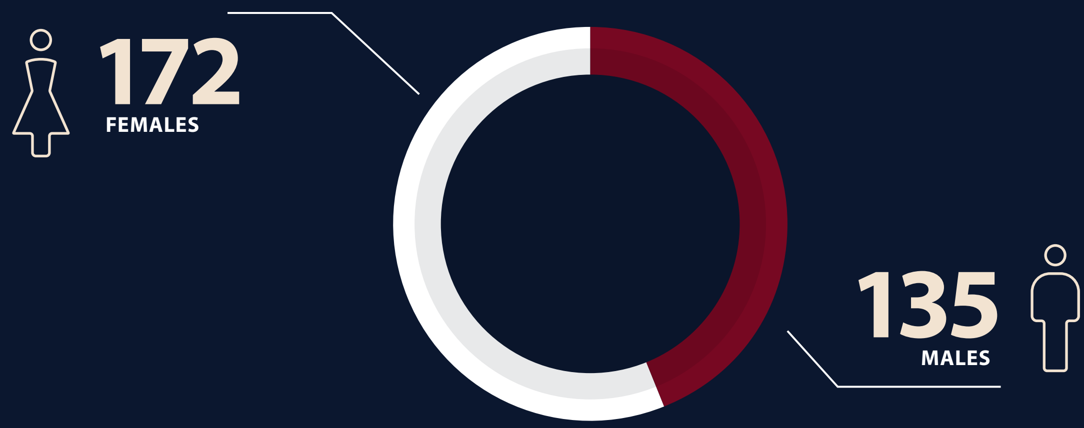
TOTAL LOCAL TRAINING

10,848 **HRS**

OVER 35 HOURS/ EMPLOYEE

+27% OVER 2017

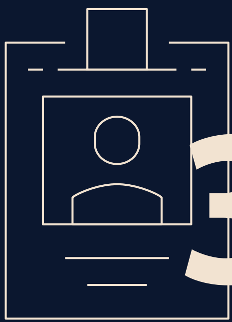
GENDER DISTRIBUTION



88

EMPLOYEES JOINED MFSA IN 2018

2017: 53



AVERAGE AGE

34.6

YEARS

2017: 36.2

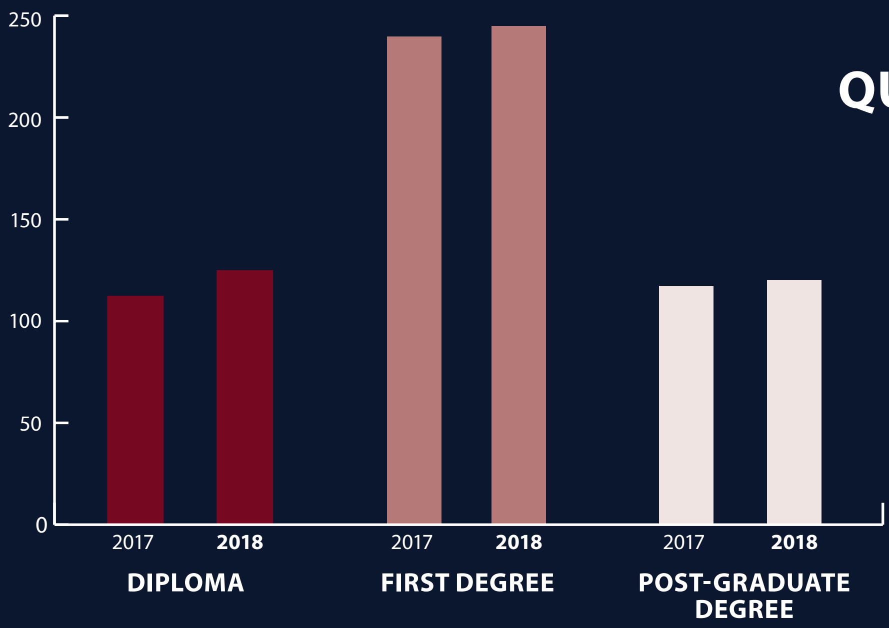
AVERAGE TENURE

5.26

YEARS

2017: 5.85

EMPLOYEES' QUALIFICATIONS



Recruitment

The Authority's 2021 Vision emphasises the need to transform processes and deliverables in the execution of its functions. Recruitment of the right talent is a crucial element in this path. Throughout 2018, the HR team conducted more than 700 interviews, leading to the recruitment and appointment of 88 employees. The new employees have specialised skills relating to the different facets of the Authority's remit including banking, financial institutions, insurance, pensions, investments, securities, Blockchain and FinTech.

Changes were made to role requirements pertaining to candidate experience, enabling the Authority to broaden the pool of candidates for recruitment. Grade changes were also made to align roles to the local market, giving the MFSA the opportunity to attract the best talent.

Furthermore, the Authority participated in various Job Fairs and Careers events organised by local institutions.

Retention

In 2018, the MFSA achieved the Equality Mark from the National Commission for the Promotion of Equality, in recognition of family-friendly practices and other human resource policies and measures.

Work on the development of job descriptions was carried out in 2018. This will lead to the setting up of a competency framework for the assessment of roles and performance. It also serves as a basis for further initiatives, mainly in the areas of performance management and training needs analysis.

In 2018, the People & Culture function placed particular emphasis on the improvement of internal communication. In this regard, team-building sessions were organised for staff members across all grades and units. The overriding objective was to foster a performance culture that embraces synergy between employees working in the different functions of the Authority.

The Authority is committed to continuous training and development. Employees were provided with support to pursue further studies leading to a qualification at certificate, diploma, first degree or post-graduate level.

A number of training opportunities were offered to staff, namely:

a) The Self-development Scheme
   As at end December 2018, a total of 33 persons were benefiting from this scheme.

b) Participation in meetings, workshops and training overseas
   The majority of these were hosted by the European Banking Authority (EBA), the European Securities & Markets Authority (ESMA), the European Insurance & Occupational Pensions Authority (EIOPA) and the European Central Bank (ECB).

c) In-house training programmes
   - Induction Courses for new recruits;
   - Teambuilding Sessions, training sessions on GDPR, cybersecurity and Quality Assurance, and a Live the Values Training for all staff;
   - Internal Seminar on VFA Act and AML/CFT (Phase 1 and2) for regulatory supervisors.

In 2018, the MFSA renewed its commitment towards participation in the ECB Schuman Programme (2nd Edition). The programme offers the European System of Central Banks and National Competent Authorities the opportunity to submit proposals for projects that they would like to implement in-house, led by staff members of these entities.

The People & Culture Team continued to participate actively in the ECB Human Resources Conference (HRC) and the Ethics and Compliance Officers Task Force (ECTF). The Team continued also the role of Secretary for the MFSA's Education Consultative Council (ECC), which addresses training needs of the general public.

Remuneration

In 2018, the MFSA introduced a fair compensation structure comprising new mechanisms for salary progression and to reward outstanding contribution. It recognises persons offer different levels of contribution while introducing the mechanisms allow for growth and development.

TECHNOLOGY

Technology enables the Authority to perform as a knowledge-based organisation in achieving its strategic and operational objectives.

The team leverages cutting-edge technology, industry standards and methodologies to provide reliable services to the rest of the organisation and entities interacting with the Authority through digital means. It is responsible for technology design, development, integration and delivery of all information and communications infrastructure, platforms and services, and works with technology vendors and partners. It helps ensure the protection of data based on the principles of data privacy, while mitigating against cyber threats using advanced protection mechanisms.

The team is made up of professionals specialised in relevant ICT areas that include information systems, infrastructure, security, and service management. Officials from the Technology team participate in several European committees, expert groups and industry fora.

Information Systems

Information Systems demands grow exponentially from year to year, and 2018 was no exception. During the year, the team was strengthened with additional resources and new Information Systems were developed and implemented, laying the groundwork for a series of ambitious and innovative IT projects that will transform and digitise the Authority.

Licence-holder data was further consolidated in one database and FinHub was developed in-house, enabling easy retrieval of Licence-holder and Involvements information. Additionally, licence-holders have been enabled to submit their own licence-related information digitally to the Authority through a dedicated portal. They can submit Personal Questionnaires, VFA Applications, and On-site Visit data, requested by the Authority, online. In anticipation of these new functions, the Licence-holder Portal, which is also the gateway for Licence-holders to submit returns online, was significantly upgraded to improve user experience and availability.

A high-security 'Trusts Ultimate Beneficial Owner Register' was developed to facilitate the electronic submission of beneficial ownership information of trusts. Through the system, the Authority is able to provide different access levels to the information contained within the Register. Furthermore, a MiFID II system was developed and implemented.

Systems Infrastructure

The focus on Systems Infrastructure in 2018 has been fourfold:
(i) implementing new technology features facilitating staff's day-to-day work,
(ii) upgrading systems and ensuring continued support by manufacturers,
(iii) deploying high availability and resilient solutions, and
(iv) increasing team capacity in line with the Authority's growth.

This necessitated rapid investment and engagement of vendors and systems integrators in projects that were executed with limited business disruption. The ongoing objective is to keep the Authority's systems updated to provide a resilient, stable, scalable and secure architecture for existing and future information systems.

During the year, the perimeter firewall was upgraded to the latest version, equipping it to resist and fight fifth generation attacks. An upgrade was performed on the network core layer which acts as a high-speed switching backbone, allowing infrastructure growth, segregation of nodes, network redundancy, better connectivity, network resiliency and the introduction of new services. Two-factor authentication methodology was extended to more systems to strengthen security. Moreover, an extensive server infrastructure redesign process to introduce a more robust and up-to-date architecture, in line with industry best practices, began. This included the upgrading of MFSA's domain services, file server systems, e-mail servers, data backup software and anti-malware platforms.

The Authority also embarked on mobility-related projects in order to empower and enable users. State-of-the-art guest Wi-Fi was introduced, providing Internet access to employees, guests, suppliers and visitors, while keeping the main network separate and secure. The Enterprise Mobility Management solution, allowing staff remote working capabilities on mobile devices, was another significant project implemented in 2018.

Service Management

Being at the frontline of service and support, this important role facilitated procurement, resource provisioning, service delivery and recovery services. Methods were employed by the team to achieve a necessary uninterrupted service within the designated timeframe.

Coordination of works, together with good planning, ensured that the service was delivered on time and at the appropriate quality level. This is particularly important when handling larger scale projects which involve different technology teams.

Through meticulous research and proof of concepts, the right tools are employed to deliver the most efficient and effective service, underpinned by pre-established response and resolution times. Appropriate service level agreements were revised and established, offering better services within agreed timeframes and with the least disruptions.

▸ COMMUNICATIONS

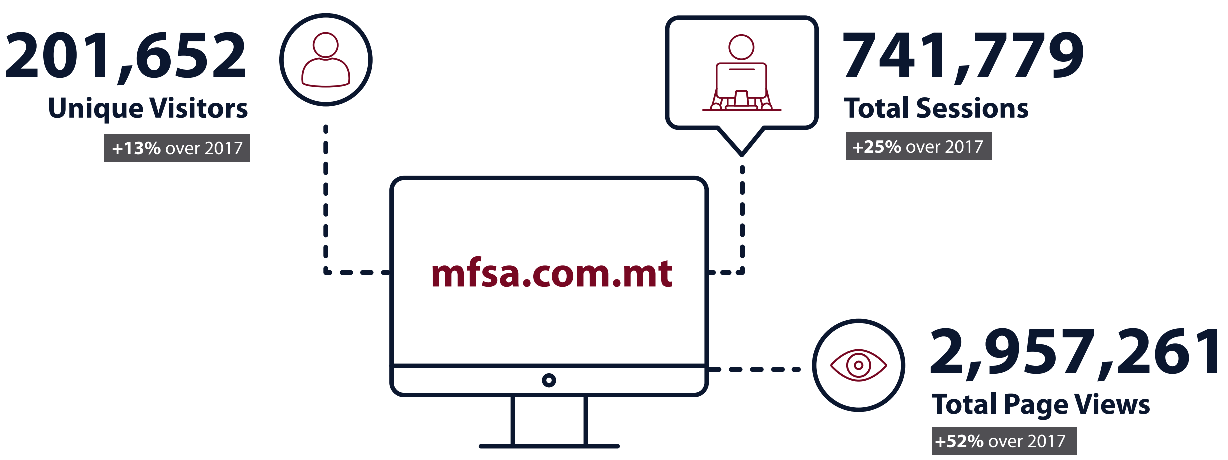
As the single financial services regulator in Malta, the MFSA strives to engage directly with firms, investors and consumers, encouraging an open relationship that serves to improve transparency and the quality of service.

The Communications Team serves a pivotal role in communicating regularly, through its various channels, the latest developments stemming from the MFSA. The Team also handles relations with the local and international media, produces and distributes a number of regular and special publications and engages with external bodies relevant to the Authority's statutory duties.

The MFSA website remains at the core of information provision, offering immediate and real-time updates, providing a central depository of information for existing and prospective licence holders, researchers, journalists and other service providers. Content includes updated legislation, regulation, supervisory procedures, guidance notes, alerts and warnings and is updated on a real-time basis.

The website's audience and usage has continued to experience a surge in numbers during the year in review.

Website Analytics



In 2018, 201,652 unique visitors made 741,779 visits to the site, a 25% per cent increase over the previous year. Users from more than 200 different countries visited the website and made close to three million page views. The bulk of these visits came from major international jurisdictions, mainly the United Kingdom, France, United States of America, Germany, Italy and Switzerland. These numbers reflect the wide-reaching nature of Malta's financial services jurisdiction, confirming the interest and following from the top financial centres around the world as well as from a growing number of emerging centres. In line with the rebranding of the MFSA carried out earlier this year, the Authority launched a re-designed website, to improve user experience and provide easy access to the most frequently sought information.

The Communications Team replied to more than 2500 queries, double those received in 2017, mostly coming in through the website contact form. These covered a variety of issues ranging from requests for information regarding possible licence application, requests for assistance by consumers of financial services and assistance to students and researchers.

The Authority's social media activities have continued to expand, particularly on Twitter and LinkedIn. The MFSA's following and users' engagement through these tools has contributed to the increased activity. These tools serve as an important asset of communication with the industry, attracting a following among professionals in the sector.

Events

The MFSA continued to support a number of Conferences, Seminars and other events that were held in 2018.

The MFSA supported Malta's efforts towards attaining a leading role in FinTech in the year under review. This culminated in the Authority's participation at the Delta Summit, a FinTech conference which attracted more than 3000 delegates in October. This event was highly successful for the MFSA with a considerable number of companies, operating in the VFA sector, expressing interest in investing and establishing their operations in Malta. MFSA officials participating in the Delta Summit reported overwhelming interest in the Maltese jurisdiction, which is considered as an international leader in the development of a framework regulating such assets. A number of established crypto asset companies have already expressed publicly their intention to set up shop in Malta and other international companies and start-ups attending the Summit shared their ideas with the MFSA's FinTech team, and discussed opportunities being presented to them through the newly-enacted VFA Framework.

The MFSA also organised two FinTech events, namely a Seminar for Proposed VFA Agents under the Upcoming VFA Act, and one on Due Diligence and Cybersecurity.

Public and Internal Relations

Direct contact was maintained with the media through the publication of Media Releases and other Notices as well as through the provision of replies and comments to editorialists and journalists on a variety of issues as requested by both local and foreign members of the press.

The Team also oversees the publication of the MFSA Annual Report, the monthly Newsletter as well as the publication of notices and adverts as required in the media.

Regulatory Notifications in 2018

116
Notices

98
Circulars

7 Local Warnings

450+ Foreign Warnings

Engaging with the Industry

15
Consultation Papers

7
Feedback Statements

The Communications Team manages sections of the Intranet portal through which members of staff are updated with developments, both from a regulatory front, as well as administrative and day-to-day matters arising at the Authority. These support the professional development of MFSA staff with the inclusion of a number of journals and relevant publications which assist the team in various areas of work, including policy development and regulatory aspects as well as emerging issues in the industry.

Consumer Education

The MFSA plays a significant role in ensuring consumers of financial services are provided with sufficient information on available products and raises awareness about consumer rights through educational campaigns.

The Communication Team handles enquiries from the public in person, by telephone and e-mail.

In 2018, the Authority continued to upgrade its "mymoneybox" consumer web portal which provides comprehensive and impartial information to consumers on financial products and services. This content has now been absorbed within the website mfsa.com.mt. The Consumer Section on the website provides comparative tables on bank and brokerage charges, a comparative database of motor insurance policy features, as well as a dedicated section addressing frequently asked questions.

Towards the latter part of the year, the MFSA embarked on a nation-wide campaign raising awareness on consumers' rights to open a Basic Payment Account. Besides raising awareness among the public about the availability of payment accounts with basic features through an educational campaign, it is communicating directly with the banks to ensure that citizens' rights are respected.

The Communications Team published a monthly online consumer newsletter featuring educational topics on financial services and products, current financial warnings and an overview of the educational activities carried out by the Unit.

The MFSA hosted a number of educational presentations and talks for students from local schools visiting the Authority, and visited schools for similar sessions. These efforts included the publication of a series of booklets, including 'Banking for Students', relating to financial education and other informative material.

06

Outlook and Vision 2021

Outlook and Vision 2021

The MFSA plays a pivotal role in ensuring market trust and improving the stability and integrity of the financial market. Our commitment to serving the public is demonstrated through our core work which is driven by five values that constitute the foundation of our governance and work ethic, namely: integrity, trustworthiness, dependability, independence and excellence.

The vision of the MFSA is to be a leading forward-looking financial services regulator which has the respect and trust of industry and the general public, thereby enabling a strong and dynamic financial sector.

With the launch of its Vision 2021 in early 2019, the Authority has developed a comprehensive strategic framework which focuses on reinforcing and organising the internal capabilities of the Authority in a manner which best addresses its broad and ambitious mandate.

The Authority will continue its proactive approach to monitoring trends in the financial market and in identifying potential risks of misconduct at an early stage. In this manner, it shall continue to protect the interests of the general public, cater for innovative market solutions and ensure that the local financial market works in an effective, competitive and fair manner.

This section of the Annual Report sets out the main areas that MFSA will focus on in the years to come, based on the role of the Authority as a regulator and supervisor of Malta's financial services industry, as well as its wider EU and global regulatory and supervisory objectives.

RISK-BASED SUPERVISORY APPROACH

Applying a risk-based approach is essential for the Authority's supervisory role to be effective, and this forms an important part of its strategic plan. Well-executed risk-based supervision entails identifying money laundering ('ML') and terrorist financing ('TF') risks and supervising firms, commensurate with the risks identified, while taking necessary action to bring about compliance.

Malta is establishing itself as one of the world's leading jurisdictions for remote gaming, e-money and digital currencies; sectors which may be more vulnerable to risks of financial crime. Furthermore, the high demand for real estate and the Individual Investment Programme (IIP) call for effective measures to contain financial integrity risks. Against this background, the Authority has made the combating of money laundering and terrorist financing one of its strategic priorities for the future.

The Authority has developed an Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) Strategy[22] to integrate AML/CFT practices throughout the supervisory life cycle, including authorisation, prudential and conduct supervision. The Strategy sets out the principles which authorised entities are expected to observe. The strategic approach adopted by the Authority will also give due regard to the recommendations to be put forward by Moneyval.

The MFSA performs a critical role in the fight against money laundering and terrorist financing, both in terms of its cooperation with the FIAU as well as in its independent role of overseeing the correct conduct and stability of firms in the financial services industry. It safeguards integrity, prosperity, innovation and trust in the Maltese financial services sector. This trust has been undermined by financial crime concerns in recent times, and the

[22] The AML/CFT Strategy issued by MFSA is available at: https://www.mfsa.com.mt/wp-content/uploads/2019/02/MFSA-AML_CFT-Strategy.pdf

National Risk Assessment (NRA) has highlighted the need for action to be taken in terms of strengthening the institutional framework that is in place for supervising, gathering intelligence and taking legal action when financial crimes are committed.

The completion of the NRA in 2017 formed the basis of Malta's risk-based approach. Indeed, the NRA served to identify and assess the threats (e.g. crimes generating proceeds, criminal groups) and vulnerabilities (i.e. sectors and products exposed to abuse or misuse) to which Malta was exposed, as well as the national combating abilities, such as investigation, prosecution and confiscations[23].

Furthermore, as part of the Financial Stability Assessment Programme (FSAP)[24], the IMF highlighted the risks, related to money laundering and terrorism financing, which needed to be closely monitored and addressed. The IMF recommends a multi-pronged approach which focuses on enhancing the AML/CFT system, investing in additional supervisory resources both at the FIAU and MFSA, and establishing an EU-level arrangement responsible for AML/CFT supervision. In terms of the improvements required in the AML/CFT system, the IMF is of the view that efforts should focus on the application of preventive measures by banks, including customer due diligence with efficient verification of beneficial ownership. This is relevant in particular to their higher risk activities and clients, including the significant non-resident sector.

The Authority is intensifying efforts to regulate and supervise high-risk sectors and sanction non-compliant entities. It is continuing to invest resources in identifying, assessing and understanding the various risks emanating from each sector and in developing further risk-based supervisory practices. The Authority adopts a principle-based approach to supervision, guided by the proportionality principle, such that the extent of supervision is dependent on the nature, scale and complexity of the business activities and the overall risk profile. The Authority is, in this respect, reviewing its supervisory risk assessment model and also working on a Risk Appetite paper.

This approach takes into account emerging risks, in particular anti-money laundering and countering of financial terrorism (AML/CFT) risks, changing and more complex business models, cyber risks and the rapidly evolving technological landscape within which the regulated industry, supervised by the MFSA, operates. Additionally, the Authority takes note of the trends and risks identified as part of ongoing on-site and off-site supervisory work, which varies from on-site inspections, desk-based reviews, supervisory meetings and questionnaires issued to supervised entities to other off-site supervisory initiatives.

The MFSA aims to enhance its supervision by adopting a more holistic business model approach. It will cooperate with other institutions, namely the Malta Gaming Authority (MGA) and FIAU, to increase scrutiny of high-risk sectors by carrying out more off-site and on-site examinations. During 2019, the newly set-up Banking Team, within the Conduct Supervision function, plans to carry out mystery shopping exercises at branches of credit institutions. These surprise visits are chiefly aimed at addressing any difficulties being encountered by customers when opening bank accounts and to carry out on-site inspections at respective Head Offices to assess the bank's conduct functions. This Team shall adopt a risk-based approach for the conduct of both on-site and off-site supervisory work.

During 2019, Conduct Supervision will assume responsibility for the supervision of the conduct of business of insurance undertakings and insurance intermediaries. The Insurance Supervision team intends to carry out a number of on-site inspections at these licensed entities to assess their adherence to the applicable conduct of business requirements. These inspections will focus on particular requirements relating to the oversight of tied insurance intermediaries by the insurance undertakings who appoint them, and to the complaints handling procedures which insurance undertakings and intermediaries have in place.

Besides increasing coverage in terms of depth and number achieved through on-site inspections, a more holistic approach is attained by assessing the complexity and variation of the business model of supervised entities.

[23] The full National Risk Assessment is available at: https://mfin.gov.mt/en/Library/Documents/Result_of_the_NRA_2018.pdf

[24] Box 1 discusses the main highlights of the report drawn up following the extensive exercise carried out by IMF in 2018 to assess key aspects of the Maltese Financial Stability Policy Framework.

This methodology will ensure that supervision is conducted in a more complete manner through the entire supervisory lifecycle. In turn, this will allow the Authority to take full advantage of its broad enforcement powers ensuring appropriate corrective actions are taken in case of breaches of AML/CFT requirements.

IMF Financial Sector Assessment Programme (FSAP) for Malta

In March 2018 the International Monetary Fund (IMF) in co-ordination with the MFSA and other Maltese and European financial authorities, initiated a Financial Stability Assessment Programme (FSAP) on Malta. This extensive exercise assessed key aspects of the Maltese Financial Stability Policy Framework against Core Principles for Effective Banking Supervision, Insurance Supervisory Principles, Objectives and Principles for Securities Regulation, the Financial Action Task Force's (FATF's) 40+8 Recommendations, and other relevant standards and codes. The main areas covered included the quality of the regulatory and supervisory framework, the resilience of the financial sector and the country's ability to manage and resolve financial crises.

The process started with a series of remote discussions and a preliminary mission carried out by an IMF team in February/March 2018. These were intended to define the scope of the FSAP, key dates, stress testing approaches and modalities for standards assessments. This phase was followed by a set of detailed responses to various Questionnaires and data requests prepared by the authorities over the following months. Stress tests were also carried out in conjunction with the European Central Bank, the Central Bank of Malta and the MFSA during July and August.

This part of the exercise was followed by an on-site review carried out by an IMF assessment team between the 10 and 26 September during which the team held extensive meetings with the MFSA and other national authorities, private financial sector institutions and local practitioners. The FSAP was concluded with the publication of a Financial System Stability Assessment (FSSA), published on 27 February 2019, following approval by the IMF Executive Board. The Report makes a series of recommendations relating to the strengthening of the financial stability framework, the implementation of which will be assessed in the upcoming annual Article IV missions to Malta.

Highlights of the Report

The IMF Assessment confirms the importance of the financial services sector to the Maltese economy and its strong connections to the rest of the world. Banks continue to be important players in the financial sector, which remains healthy and resilient despite challenges. Investment services firms focus mainly on foreign markets and are well integrated within the single market through inward and outward passporting. The insurance market is sophisticated, as evidenced by the presence of professional reinsurers, captive insurers, protected cell companies (PCC), and a reinsurance special purpose vehicle.

The Report highlights the challenges facing the MFSA from the increased demands of supervising the growing number of licensed financial institutions in an evolving and more complex regulatory environment, as well as the need to upgrade the MFSA's operational capacity to enable it to operate more effectively. Recommendations made in the Report include the need to strengthen supervisory and enforcement capacity through increased resources, investment in technology and a number of operational and technical initiatives intended to enhance sectoral risk-based supervision, enforcement and judicial processes.

The Report also provides valuable inputs into the ongoing improvement processes undertaken by the MFSA in conjunction with other national authorities and stakeholders to continue to safeguard stability and address the risks that may stem from different sectors of the financial market.

The Report is available on the IMF website:
https://www.imf.org/en/Publications/CR/Issues/2019/02/27/Malta-Financial-System-Stability-Assessment-46636

The Authority will continue to ensure that supervised entities enhance their governance and internal control structures. As part of the ongoing assessment of its supervised entities, the Authority is also placing greater focus on the area of Passporting, in order to have more control, from a prudential supervisory perspective, of activities being carried out overseas in other jurisdictions. In addition, one of the MFSA's related supervisory priorities entails assessing the financial interconnectedness of its supervised entities, forming part of a group and implementing more enhanced supervision.

The role of MFSA in combating money laundering and terrorist funding risks is also defined by its member position in the National Co-ordinating Committee (NCC) on Combating Money Laundering and Funding of Terrorism. This Committee, which was set up in April 2018, is in charge of defining, overseeing and coordinating the implementation of the national AML/CFT strategy[25]. The NCC will also take a leading role on a number of projects, such as coordinating the next NRA in 2020.

TECHNOLOGICAL INNOVATION

It is integral to the Authority's strategic framework to explore continuously innovative ways to improve the functioning and effectiveness of the financial market. To this end, it is directing efforts to understand how innovation is evolving to ensure that regulations cater for such matters. It plans also to invest and make further use of technology to facilitate interaction with stakeholders and increase efficiencies in the deliverance of supervisory activities[26].

Recent technological advancements, such as artificial intelligence, distributed ledger technology, the Internet of Things and cloud technologies, are transforming rapidly the way customers access financial services and engage with the providers of financial products. While the potential benefits of FinTech are significant, these innovative technologies also bring risks such as: customer misunderstandings in relation to the risks involved, right of redress in the event of complaints and access to compensation schemes in the case of losses.

Cybersecurity, money laundering and financing of terrorism are also major areas of concern. Based on these considerations, the Authority has proposed a FinTech Strategy for industry players that will support the financial services industry to take on opportunities presented by technological innovation while counteracting emerging risks adequately.

In line with the MFSA's long-term approach of catalysing innovation, growth and competition in the financial services sector, while ensuring robust investor protection, market integrity and financial soundness, the FinTech Strategy puts forward six pillars, being
(i) Regulations
(ii) Ecosystem
(iii) Architecture
(iv) International Links
(v) Knowledge, and
(vi) Security.

The Regulations pillar involves adopting regulatory and supervisory initiatives to support innovation and improve regulatory initiatives. To this end, the MFSA is setting up and heavily investing in a dedicated FinTech team. Through this function, MFSA will propose policy guidance on how FinTech related activities and services fall within existing guidelines and will explore whether or not new forms of policy responses are required for FinTech related activities. Furthermore, it will continue building on the work of the current MFSA FinTech team, which was involved in the implementation of the Virtual Financial Assets ('VFA') Framework - a modest beginning on the MFSA FinTech journey.

Being cognisant of the AML/CFT risks associated with this VFA sector, the MFSA and FIAU have ensured that adequate safeguards are put in place. More specifically, the Act brings issuers, VFA Agents and VFA service providers within the definitional scope of a "subject person" in terms of Article 2 of the Prevention of Money Laundering and Funding of Terrorism Regulations ('PMLFTR'), the domestic legislative instrument transposing the 4th Anti-Money Laundering Directive.

As the MFSA undergoes a programme of reforms to strengthen its supervisory structure, it will be able to build capabilities and understand better the emerging technologies space, so as to have appropriate AML/CFT

[25] The National AML/CFT Strategy is available at: https://mfin.gov.mt/en/Library/Documents/National%20AML-CFT%20Strategy/National%20AML-CFT%20Strategy.pdf

[26] MFSA, Vision 2021 Strengthening the MFSA and Preparing for the Next Generation of Financial Services, available at: https://www.mfsa.com.mt/wp-content/uploads/2019/01/MFSA-Vision-2021.pdf

monitoring processes which rapidly identify related risks and close gaps. These reforms include the:
(i) strengthening of cooperation between the MFSA's prudential AML/CFT supervision and the FIAU;
(ii) the digitisation of due diligence procedures, major investment in business intelligence and regulatory and supervisory tools;
(iii) strengthening of human resources, and
(iv) an extensive AML/CFT programme.

For authorisations under the VFA Act, particularly with respect to the competence requirement under the fitness and properness assessment, the MFSA is conducting interviews with involved parties including the Money Laundering Reporting Officer (MLRO), in conjunction with the FIAU. The MFSA also engaged foreign consultants to provide AML/CFT specific training to MFSA supervisory staff. The MFSA is thus well-equipped to face new challenges in addressing AML/CFT risks. In relation to Malta's national risk assessment on AML, an ad hoc assessment on crypto-assets is being prepared.

Virtual Financial Assets (VFA) Framework

On 30 November 2017, the MFSA published a Discussion Paper on Initial Coin Offerings, Virtual Currencies and related Service Providers. The Discussion Paper presented stakeholders with a proposed policy to be adopted by the MFSA for the creation of a high-level principle-based regulation. The policy was in line with the high-level objectives set out by international standard setters, relating to ICOs and the provision of certain services (namely intermediaries that act as brokers, exchanges, investment advisors and market makers) in relation to DLT assets that currently fall outside the scope of existing financial services regulation.

The MFSA received ample positive feedback with respect to the proposed introduction of a new legislative framework regulating ICOs and the provision of certain services in relation to virtual currencies. The MFSA proceeded to draft the Virtual Financial Assets Act (previously referred to as the Virtual Currencies Act and hereinafter referred to as Act) and submitted the Bill to the Government for the initiation of the necessary parliamentary procedures in line with the legislative process. The Act was approved by Parliament and was subsequently published on 20 July 2018. The Act came into force on 1 November 2018.

Two corresponding Acts, the Malta Digital Innovation Authority Act (the MDIA Act) and the Innovative Technology Arrangements and Services Act (the ITAS Act), were also published on 20 July 2018. The MDIA Act provides for the establishment of the Malta Digital Innovation Authority, which is tasked with: (i) supporting the development of technological innovation; and (ii) exercising regulatory functions regarding innovative technology arrangements. The ITAS Act provides for the regulation of designated innovative technology arrangements and services, and for the exercise by or on behalf of the MDIA of regulatory functions with regard thereto.

On 4 July 2018, the MFSA published a Consultation Paper on the Virtual Financial Assets Regulations (VFA) to be issued under the Act which presents a draft Legal Notice setting out regulations on: [i] exemptions; [ii] fees; [iii] control of assets; and [iv] administrative penalties and appeals. The final Regulations have been published.

The Authority is now preparing the rules underlying and complementing the Act and the VFA Regulations. The rules will provide further detailed regulation applicable to operators in this field of financial services. The MFSA has introduced a rulebook, titled the Virtual Financial Assets Rulebook, which is subdivided into three chapters as follows: [i] Chapter 1 - Virtual Financial Assets Rules for VFA Agents; [ii] Chapter 2 - Virtual Financial Assets Rules for Issuers of Virtual Financial Assets; and [iii] Chapter 3 - Virtual Financial Assets Rules for VFA Service Providers.

The Discussion Paper proposed the introduction of a Financial Instrument Test. The objective of the Test is to determine whether a DLT asset, based on its specific features, is encompassed under: (i) the existing EU legislation and the corresponding national legislation; (ii) the Act; or (iii) is otherwise exempt. More specifically, the Act distinguishes between four different classes of DLT assets, namely: [i] financial instruments; [ii] electronic money; [iii] virtual tokens; and [iv] virtual financial assets. It is this final DLT asset class that falls within the regulatory perimeter of the Act. The Test is applicable both within the context of an ICO as well as during the intermediation of DLT assets by persons undertaking certain activities in relation to such assets in or from within Malta.

The Authority has set up a specific section on its website where all publications/developments in this sphere are being uploaded (https://www.mfsa.com.mt/fintech/virtual-financial-assets/)

The Regulations pillar of the FinTech Strategy also involves the creation of a FinTech Regulatory Sandbox. This will provide entities with the space to operate in a controlled but fully functional financial services environment in which innovative new products, services, business models and delivery mechanisms can be tested, monitored and enhanced. Such entities would be closely monitored by the MFSA and require temporary regulatory authorisation to participate. This will provide the Authority with the opportunity to build technical capacity in terms of knowledge and infrastructure while identifying the applicable financial and market risks, consumer protection measures and appropriate regulatory response.

The MFSA is proposing to establish a regulatory and supervisory framework within which the Sandbox would operate. It is seeking to allocate the necessary resources, in terms of capacity, expertise, and infrastructure. The Sandbox would include the assessment process and the respective eligibility criteria for entrants, as well as the licensing conditions applicable to entities operating within it.

In parallel to the evolution of FinTech, a new productive sector has emerged in which firms harness technology to deliver products or services to facilitate regulatory compliance. In this respect, the Authority will be investing in RegTech innovations and cutting-edge business intelligence technology. It will acquire new analytical skills, tools and resources, and improve its capacity for investigating, monitoring, analysing relevant financial information and disrupting the illicit use of crypto-assets. In the context of the VFA Framework, the MFSA has already engaged in conversations about top-tier blockchain analytical tools, including Chainalysis, Elliptic, Ciphertrace and Neutrino. In the first quarter of 2019, the MFSA engaged Ciphertrace for enhanced compliance and more effective enforcement. This partnership will lead to a more intrusive approach towards detecting AML/CFT breaches, unveiling anonymity of users and linking them to crypto-assets and relevant crypto transactions.

Another foundational element of the FinTech Strategy involves the setting up and development of a FinTech Innovation Hub, falling under the ecosystem pillar of the Strategy. This is central for positioning Malta as a leading international FinTech jurisdiction and attaining and reaping the full potential of a truly holistic ecosystem. The Hub would combine all the elements of the ecosystem as well as other strategic pillars into one platform for stakeholders to access. The valuable services, offered by the Hub to all partners, range from the availability of office space (dedicated desks, hot desks, private offices or virtual connectivity); incubation and accelerations spaces; IT infrastructure and shared platforms to build applications and software, alongside the networking and concentration of innovation and creativity generated by participants and industry experts.

Furthermore, the Authority is working towards encouraging collaboration through the adoption of Open Application Programme Interfaces (‘APIs’) and shared platforms. An open architecture is a type of technology infrastructure or software through which components can be added, upgraded, swapped and integrated with ease.

In this regard, the Authority is proposing several steps including commissioning research and conducting training and awareness activities on how APIs can be commercialised in Finance-as-a-Service models, encouraging incumbent banks and financial institutions to share their APIs openly with approved third parties, including FinTechs, and discussing with other international regulators potential areas for collaboration in this sphere.

As to the adoption of shared platforms, which essentially involve a group of market participants coming together to develop shared resources, the Authority will carry out a scoping and consultation exercise to determine need and interest. If such platforms are deemed to be beneficial for the industry as a whole, the next step would involve initiating discussions with interested parties to develop and implement them.

The FinTech Strategy also places emphasis on the need for the MFSA to continue building international links, with the intention to establish FinTech Bridges with other jurisdictions, both within and outside of the EU. Such relationships will enable closer and stronger collaboration on FinTech with foreign governments, financial regulators and industry, locally and abroad. Through the establishment of these links, the local FinTech sector will benefit in a number of ways. It will open up and make it easier for foreign FinTech firms to access the Maltese market, help local start-ups to scale-up through access to foreign markets, and create opportunities for international investment.

Knowledge is essential to the effective implementation of the FinTech Strategy. The MFSA will collaborate actively with academic bodies and institutions, such as the University of Malta, to increase the availability and level of programmes and courses specifically relating to FinTech subject matters and offer internships in its FinTech Team to students completing their studies. This will help to create a skilled specialised workforce that is required for sustainable growth. The MFSA is also proposing to collaborate with foreign universities, institutes and training bodies as well as other foreign corporates and organisations to facilitate student exchanges and secondments through partnership programmes and partnerships with other foreign accredited and prestigious universities and institutes to offer university programmes and courses locally.

The Authority has identified the need to ensure that the industry implements necessary cybersecurity solutions in order to effectively mitigate cyber threats and therefore address the need for market integrity and consumer protection. In this regard, the MFSA intends to issue cross-sectoral cybersecurity guidelines, determining the procedures and mandatory reporting structures which will require immediate notification to the Authority in cases of cybersecurity breaches. The aim is to adopt a collaborative concept in building an infrastructure resilient to cybersecurity threats and breaches. This will be enabled by the sharing of information gathered from cyber-attacks (subject to GDPR requirements) among different stakeholders, namely the MFSA, law enforcement agencies and other market players.

The Authority is also working on a Capital Markets Strategy which reflects the Authority's Vision 2021 and which has the main objective of encouraging capital markets that are fair, efficient and transparent. This should serve to contribute to higher investor confidence and sustainable growth. The need for a Capital Markets Strategy arises due to demands from the industry in terms of new prospective issuers, new applications for trading venues and technological development as well as a regulatory framework which does not adequately reflect today's realities. Against this background, the Capital Markets Strategy is based on two main elements, namely a strong regulatory framework which aims for investor protection and market integrity and an environment which provides all market players with equal and fair opportunities.

Underpinning this Strategy are five pillars which define its overall purpose. The first pillar relates to establishing the Authority's risk appetite, chiefly by carrying out a study to identify the risks which the Authority should take into account when considering applications for admissibility to listings and applications for new trading venues. The revision of the Regulatory Framework, namely the Listing Rules, represents the second pillar of the Capital Markets Strategy. The third pillar involves strengthening the sponsors regime by having a more detailed framework. Furthermore, the proposed action in this regard is to consider introducing a similar regime to the VFA Agent model. In line with MFSA Vision2021, the fourth pillar relates to building up supervisory capacity by investing in technology and human resources to ensure that the Authority has the necessary expertise and technical competencies to carry out its functions effectively in the area of Capital Markets. Lastly, the fifth pillar focuses on educating investors, specifically retail investors on capital markets.

PEOPLE AND KNOWLEDGE

The MFSA is a knowledge-based organisation that aims to attract, develop and retain skilled people who collaborate to deliver its mandate. The Authority's vision, to be a fulfilling and dynamic workplace for our people, will continue to be reinforced through the setting up of an Academy for Financial Supervisors.

In its FSAP report, the IMF pointed out that in view of the increased demands on supervision, higher investment in resources was required. The MFSA has already taken steps to address capacity gaps. Staff remuneration was recently improved, plans are in place to increase the human capital complement by 50% over the next three years and a new human resources strategy is being formalised. The building of HR capabilities is projected to be a significant enabler of the Authority's ambitious change programme.

The Authority is investing in human resources to ensure that it has the necessary expertise and technical competence to carry out its functions effectively in today's dynamic financial environment. This is being achieved through rigorous and continuous training of staff carried out locally and overseas. The proposed changes to the organisational structure are also intended to ensure the right sizing of human resources within each function.

In order to ensure that personnel within the financial services sector have the required skills, it is being proposed that the Educational Consultative Council (ECC) should be reformed. While retaining its current remit, which includes the identification of gaps in existing skills required by the financial services sector, it is proposed that the ECC should also be tasked with addressing educational gap at all levels. This includes, but is not limited to, available qualifications in financial services and the identification of new areas where education is necessary, particularly with regard to the areas of innovation identified, such as FinTech and RegTech. To this end, the ECC will be collaborating with the University of Malta, and possibly other educational institutions, in order to develop the necessary programmes of studies to strengthen knowledge in the field of financial services.

Regulation is continuously evolving, thereby requiring supervisors to explore new supervisory techniques. In this context, the Authority is working towards establishing an Academy for Financial Supervisors which would provide a curriculum to train young and upcoming financial services supervisors, and also to help ensure that experienced supervisors are given the opportunity to grow further and update their knowledge in this field. The Academy will provide training in relation to methodologies and latest trends in supervision. It will focus in particular on training supervisors in the area of FinTech. It is envisaged that this training will eventually be open to both local and foreign supervisors.

Additionally, the MFSA is currently carrying out a Business Process Reengineering (BPR) exercise to overhaul its supervisory processes and enhance its technology. This process aims to define internal standards and policies and remodel internal processes in order to improve efficiency and efficacy. It will involve adjusting remits, handbooks and task descriptions and updating organisational structures and defining new functions. Through this process, the Authority aims to enhance internal communication, business intelligence and risk management, workflow management and business continuity, data and document management and cross-unit collaboration. While the BPR will be addressing the Authority's internal operation, the enhancements to the existing regulatory framework will be addressed by means of working groups, with cross-sectoral expertise, which will propose amendments to legal and regulatory instruments.

▶ REVISITING THE GOVERNANCE STRUCTURE

In view of the ever-changing environment within the financial services sector, the MFSA is currently revisiting its governance structure to ensure that its internal capacity is aligned to sector needs. The proposed changes to organisational structure are envisaged to strengthen governance, streamline the organisational structure, and provide clearer lines of responsibility and accountability of the individual directorates within the Authority's remit[27].

As part of this change to the organisational structure of the Authority, the year under review saw the introduction of the role of a Chief Executive Officer (CEO) who has responsibility for the overall performance of the Authority and the implementation of its objectives, strategy and policies, as set by the MFSA's Board of Governors. The MFSA is setting up a Risk Committee which will be tasked with the design, implementation and review of the risk management policies of the Authority.

The organisational structure of the MFSA ensures that regulatory and operational functions are exercised within strict legal demarcations. In September 2017, the Government of Malta issued a consultation document on strengthening the MFSA. The Government shared with the MFSA the concerns expressed by various industry stakeholders regarding the level of efficiency and effectiveness of the MFSA's processes and the degree of supervisory engagement. The MFSA noted the concerns expressed by the IMF, the European Commission (EC) and the European Supervisory Authorities in relation to the MFSA's technical and human resources, and the extent of supervision.

This restructuring aims to address supervisory fragmentation, streamline the organisational structure, ensure efficacy in the decision-making process and address supervisory gaps, as well as eliminate duplication of supervisory processes. The proposed changes will strengthen governance by providing clear lines of responsibility and accountability of individual directorates in the execution of the Authority's remit.

▶ BREXIT

On 29 March 2017, the United Kingdom (UK) notified the European Council of its intention to withdraw from the European Union (EU) pursuant to Article 50 of the Treaty on European Union (TEU). In view of the potential for disruption to the financial industry and its customers, if financial services firms were not adequately prepared, the MFSA extensively engaged with each sector in the financial industry falling under its remit. Impact does not appear to be substantial, except for a few specific entities which are taking action.

The MFSA will continue to follow the guidance and recommendations issued by the European Supervisory Authorities (ESAs), namely EBA, EIOPA and ESMA. As highlighted in the Spring 2019 ESAs' report, it is crucial that European Union financial institutions, market participants and their counterparts enact timely contingency plans

[27] MFSA, Vision 2021 Strengthening the MFSA and Preparing for the Next Generation of Financial Services, available at: https://www.mfsa.com.mt/wp-content/uploads/2019/01/MFSA-Vision-2021.pdf

to prepare for the United Kingdom's withdrawal from the European Union and the possible market volatility a no-deal Brexit may trigger. The ESAs are closely monitoring Brexit developments and the possible associated risks of a no-deal scenario.

During 2018, the MFSA monitored progress on the discussions related to the UK's exit from the European Union, particularly the services provided by trade repositories established in the UK and those of CCPs. The Securities and Markets Supervision contributed to the analysis and oversight of the implications of this event. Moreover, an internal Brexit Working Group between different functions within the Authority was established, focusing on the securities area, in order to ensure supervisory convergence. The team also provided its assessment to local and foreign authorities in relation to the impact of Brexit on the domestic securities industry.

Insurance and Pensions Supervision continued to engage actively with relevant insurance and reinsurance undertakings carrying out insurance activities in the UK by way of provision of services and/or freedom of establishment. The Team ensured that all undertakings carrying out cross-border activities in the UK had established adequate contingency plans, addressing all possible scenarios, so that policyholders and insureds' interests continued to be safeguarded. This included collating and analysing extensive data, some of which was also shared with EIOPA.

SUPERVISORY CONVERGENCE

Supervisory priorities and practices are based on a consideration of the common European supervisory culture. The Authority will continue to contribute to the process for achieving comparable supervisory practices in Member States, based on compliance with EU rules and leading to consistent supervisory outcomes.

The Authority will continue to liaise with relevant European institutions, namely the ESAs, to ensure that its implementation of rules and approach to addressing risks is consistent with that adopted by supervisory authorities in other Member States. To this end, it aims to maintain close dialogue with supervisors across the EU.

Within the context of emerging technologies, which may give rise to higher financial interconnectedness, the Authority fully recognises the ever-increasing importance of building strong international links. Indeed, this has been identified as an essential pillar in the FinTech Strategy since co-operation across Member States can serve to facilitate cross-border knowledge, adoption and investment.

Supervisory convergence provides jurisdictions with the ability to collaborate on common challenges or issues which can contribute positively to the development of the financial services sector. The Authority will continue collaborating with international peers and extend its commitment towards cooperating with other regulators. The mutual sharing of expertise and experiences should prove to be highly beneficial and also has a role in strengthening mutual trust between financial supervisors.

SUSTAINABLE FINANCE

In view of the EU commitment towards the provision of finance to investments that takes into account environmental, social and governance considerations, the Authority is working towards making sustainable finance an integral part of its culture.

In March 2018, the European Commission (EC) published its Action plan on Financing Sustainable Growth, with the aim of re-orienting capital flows towards sustainable investment, managing financial risks stemming from climate change, environmental degradation and social issues and fostering transparency and long-termism in financial and economic activity.

In recent months, the ESAs have intensified their efforts to support the EC's Sustainability Action Plan. For instance, in December 2018, the European Securities and Markets Authority (ESMA) launched three public consultations, with the first two seeking stakeholders' input on draft technical advice for the integration of sustainability risks and factors into the Markets in Financial Instruments Directive II (MiFID II) (securities trading) and the Alternative Investment Fund Managers Directive (AIFMD) and the Undertakings in Collective Investment in Transferable Securities (UCITS) Directive (investment funds). The third consulted on CRA guidelines aimed at improving the quality and consistency of disclosures of environmental, social and governance (ESG) factors when considered as part of a credit rating action. From a national point of view, the MFSA plans to continue engaging in training and discussions with the aim of incorporating sustainability into the frameworks and risk management of the Maltese financial industry.

07 Financial Statements

Contents

Annual Report and Financial Statements

31 December 2018

BOARD OF GOVERNORS' REPORT

The Governors present their report and the audited financial statements for the year ended 31 December 2018.

Principal activities

The Malta Financial Services Authority (the 'MFSA' or'the Authority') is the single regulator for financial services in Malta, which incorporates credit institutions, financial and electronic money institutions, securities and investment services companies, regulated markets, insurance companies, pension schemes and trustees. The MFSA also acts as the Resolution Authority and has been appointed as the Listing Authority. The Authority is a fully autonomous public institution and reports to Parliament on an annual basis.

Prior to 30 April 2018, the MFSA also managed the Registry of Companies. The Registry of Companies Agency was established on 30 April 2018 by virtue of Registry of Companies (Establishment as an Agency) Order published on that date.

Review of the business

The Governors hereby report a deficit of €7,756,903 for the financial year 2018 (2017: surplus of €7,570,801). Income generated from applications fees, supervision fees and listing fees increased by 2% as compared with 2017 whereas income from the Registry of Companies decreased by 64% due to the de-merger of the Registry of Companies with effect from May 2018. The increasing level of regulatory activity and participation in European meetings across all areas of supervision, saw an increasing cost base for the operations of the Authority.

Throughout 2018, the MFSA continued to perform a core role in disseminating information to consumers, media and the industry, supporting industry education and training programmes, conducting seminars and meetings on legal, technical and regulatory developments, contributing to the framing of national and EU-wide technical policy development and exchanging views and experiences with other national regulatory and supervisory bodies.

Results and surplus funds

The statement of comprehensive income is set out on page 10. During 2018, no surplus funds for the financial year were payable to Government, in terms of the Mata Financial Services Authority Act, 1988. However in 2017, an amount of €13,460,361 were payable to Government. Out of this amount, €11,000,000 were paid in 2017 with the remaining balance settled in 2018.

Governors

The Governors of the Authority who held office during the year were:

Prof Joseph V Bannister B.Sc, M.Sc, D.Phil (Oxon) – Chairman (retired on 6 April 2018)
Dr Joseph Brincat B.A. (Lond), B.Sc (Econ) Lond, LL.D
Mr Frans Camilleri DSS (Oxon), Graduate Diploma (UEA), MA (UEA)
Dr John Consiglio Ph.D., M.Phil (Eur Studs)., MBA(Wales)., DipFS., Dip Law & Adm., Dip Bus. Law & Actcy., FCIB.
Dr Lauren Ellul B.Accty (Hons), Executive M.B.A. (Edinburgh & ENPC), Ph.D (Birm), F.I.A., C.P.A.
Mr Herbert Zammit Laferla AIFS
Dr Mario Vella B.A., M.Sc. (LSE), Dr. Sc. Oec (Berlin Humboldt)
Mr Joseph Cuschieri FIA, CPA, MBA (Henley UK), CIMA Adv. Dip MA - Chief Executive Officer (appointed on 24 April 2018)

On 10 April 2018, Prof John Mamo LLD. BLitt. (Oxol). BA was appointed as Chairperson of the Board of Governors in lieu of Prof Joseph V Bannister B.Sc, M.Sc, D.Phil (Oxon) who retired on 6 April 2018. The following persons were also appointed as members of the Board of Governors on 10 April 2018:

Mr André Psaila BCom (Econ.) (Hons), MSc Banking and Finance
Mr Mario Borg BCom, MA (ISSS), MSc Public Economics (York)

Statement of Governors' responsibilities

In preparing the financial statements the Governors are responsible for;

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU and the Malta Financial Services Authority Act, 1988;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Authority will continue in operation as a going concern.

The Governors are also responsible for designing, implementing and maintaining internal control as the Governors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Malta Financial Services Act, 1988. They are also responsible for safeguarding the assets of the Authority and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of the Authority for the year ended 31 December 2018 are included in the Annual Report 2018, which is published in hard-copy printed form and may be made available on the Authority's website. The Governors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Authority's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed.

On behalf of the board

Prof John Mamo LLD. BLitt. (Oxol). BA
Chairman

Joseph Cuschieri FIA, CPA, MBA (Henley UK), CIMA
Adv. Dip MA
Chief Executive Officer

Registered office
Malta Financial Services Authority
Notabile Road
Attard BKR 3000
Malta

2 May 2019

Independent auditor's report

To the Stakeholders of the Malta Financial Services Authority

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion:

- The Malta Financial Services Authority's financial statements give a true and fair view of the authority's financial position as at 31 December 2018, and of the authority's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Malta Financial Services Authority Act, 1988.

What we have audited

The Malta Financial Services Authority's financial statements, set out on pages 104 to 129, comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the authority in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

The board members are responsible for the other information. The other information comprises the board of governors' report, which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board members for the financial statements

The board members are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Malta Financial Services Authority Act, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board members are responsible for assessing the authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board members either intend to liquidate the authority or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board members.
- Conclude on the appropriateness of the board members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the authority to cease to continue as a going concern.

Independent auditor's report (cont.)

To the Stakeholders of the Malta Financial Services Authority

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have nothing to report to you in respect of these responsibilities.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Stephen Mamo
Partner

2 May 2019

Statement of financial position

	Notes	2018 €	2017 €
		As at 31 December	
ASSETS			
Non-current assets			
Property, plant and equipment	4	**16,354,199**	16,025,894
Held-to-maturity financial assets	5	**2,169,418**	2,171,342
Total non-current assets		**18,523,617**	18,197,236
Current assets			
Trade and other receivables	7	**1,134,635**	2,094,125
Loans and receivables	8	**-**	6,000,000
Cash and cash equivalents	9	**5,050,862**	1,150,651
Total current assets		**6,185,497**	9,244,776
Total assets		**24,709,114**	27,442,012
EQUITY AND LIABILITIES			
Capital and reserves			
Capital fund	11	**1,164,687**	1,164,687
Revaluation reserve	13	**5,220,690**	5,220,690
Employee pension fund reserve	14	**1,000,002**	925,002
Reserve fund		**7,351,587**	15,183,490
Total equity		**14,736,966**	22,493,869
Current liabilities			
Trade and other payables	10	**9,972,148**	4,948,143
Total liabilities		**9,972,148**	4,948,143
Total equity and liabilities		**24,709,114**	27,442,012

The notes on pages 108 to 129 are an integral part of these financial statements.

The financial statements on pages 104 to 129 were authorised for issue by the Board of Governors on 2 May 2019 and were signed on its behalf by:

John Mamo

Prof John Mamo LLD. BLitt. (Oxol). BA
Chairman

Joseph Cuschieri FIA, CPA, MBA (Henley UK), CIMA
Adv. Dip MA
Chief Executive Officer

Statement of comprehensive income

		Year ended 31 December	
		2018	**2017**
	Notes	**€**	**€**
Income	19	**16,207,671**	25,052,588
Operating expenses	16	**(24,107,483)**	(17,614,898)
Operating (deficit)/surplus for the year		**(7,899,812)**	7,437,690
Impairment release of investment in subsidiary	6	**-**	39,479
Loss on reduction of investment in subsidiary		**-**	(76,776)
Finance income	18	**124,457**	151,956
Other income	20	**18,452**	18,452
(Deficit)/surplus for the year – total comprehensive income		**(7,756,903)**	7,570,801

The notes on pages 108 to 129 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Capital fund	Asset funding reserve	Revaluation reserve	Employee pension fund reserve	Development reserve	Reserve fund	Total
		€	€	€	€	€	€	€
Balance at 1 January 2017		**1,164,687**	**11,403,568**	**2,868,924**	**850,002**	**8,579,795**	**1,164,687**	**26,031,663**
Comprehensive income								
Appropriation from income statement		-	-	-	-	-	7,570,801	7,570,801
Transfer to pension fund reserve	14	-	-	-	75,000	-	(75,000)	-
Revaluation of property	4	-	-	2,351,766	-	-	-	2,351,766
Transfer to reserve fund following amendment to MFSA Act Cap 330, Article 26	12,15	-	(11,403,568)	-	-	(8,579,795)	19,983,363	-
Total comprehensive income for the year		-	(11,403,568)	2,351,766	75,000	(8,579,795)	27,479,164	9,922,567
Transactions with stakeholders		-						
Surplus payable to Government in terms of Article 26 of Malta Financial Services Authority Act, 1988		-	-	-	-	-	(13,460,361)	(13,460,361)
Total transactions with stakeholders		-	-	-	-	-	(13,460,361)	(13,460,361)
As at 31 December 2017		**1,164,687**	**-**	**5,220,690**	**925,002**	**-**	**15,183,490**	**22,493,869**

	Notes	Capital fund	Revaluation reserve	Employee pension fund reserve	Reserve fund	Total
		€	€	€	€	€
Balance at 1 January 2018		**1,164,687**	**5,220,690**	**925,002**	**15,183,490**	**22,493,869**
Comprehensive income						
Appropriation from income statement		-	-	-	(7,756,903)	(7,756,903)
Transfer to pension fund reserve	14	-	-	75,000	(75,000)	-
Total comprehensive income for the year		-	-	75,000	(7,831,903)	(7,756,903)
As at 31 December 2018		**1,164,687**	**5,220,690**	**1,000,002**	**7,351,587**	**14,736,966**

The notes on pages 108 to 129 are an integral part of these financial statements.

Statement of cash flows

		Year ended 31 December	
		2018	**2017**
	Notes	**€**	**€**
Cash flows from operating activities			
Cash (used in)/generated from operations	22	**(1,035,007)**	7,003,599
Interest received	18	**124,457**	151,956
Other income	20	**18,452**	18,452
Net cash (used in)/generated from operating activities		**(892,098)**	7,174,007
Cash flows from investing activities			
Purchase of property, plant and equipment	4	**(1,207,691)**	(1,343,634)
Proceeds from disposal of property, plant and equipment		**-**	8,991
Net movement in loans and receivables		**6,000,000**	4,650,000
Net cash generated from investing activities		**4,792,309**	3,315,357
Cash flows from financing activities			
Payments to Government in terms of Article 26 of Malta Financial Services Authority Act, 1988		-	(11,000,000)
Net cash used in financing activities		-	(11,000,000)
Net movement in cash and cash equivalents		**3,900,211**	(510,636)
Cash and cash equivalents at beginning of year		**1,150,651**	1,661,287
Cash and cash equivalents at end of year	9	**5,050,862**	1,150,651

The notes on pages 108 to 129 are an integral part of these financial statements.

Notes to the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Malta Financial Service Authority Act, 1988. They have been prepared under the historical cost convention as modified by the fair valuation of the land and buildings class of property. The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the Governors to exercise judgement in the process of applying the Authority's accounting policies (see Note 3 – Critical accounting estimates and judgements).

During 2018, the Authority reported a deficit of €7,756,903 and a net current liability position of €3,786,651. The Governors have taken cognisance of the overall performance and cash flow position of the Authority and to that effect, a system of pre-approval of the annual subvention as approved by the House of Representatives has been agreed and established. This will be based on annual and three-year forecasts of revenues and expenditure. On this understanding, the board of Governors have determined that there is a reasonable expectation that the Authority will have adequate resources to continue its operations for the foreseeable future. For this reason, these accounts have been prepared on a going concern basis.

Standards, interpretations and amendments to published standards effective in 2018

In 2018, the Authority adopted new standards, amendments and interpretations to existing standards that are mandatory for the Authority's accounting period beginning on 1 January 2018. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Authority's accounting policies.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014 and is effective for accounting periods commencing on or after 1 January 2018. Amongst others, it replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The standard also introduces a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. This generally results in accelerating provisions for impairment as compared to IAS 39. Notwithstanding this change in recognising impairment, the Authority qualifies for the simplifications afforded in IFRS 9 in recognising impairment losses, by estimating the expected credit loss using a provisions matrix. An assessment was carried out to evaluate the expected losses over a period of time and the impact of such adoption has been reflected in the results for 2018.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when customer obtains control of good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related

Notes to the financial statements (cont.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

1.1 Basis of preparation (cont.)

Standards, interpretations and amendments to published standards effective in 2018 (cont.)

interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The standard requires that variable considerations be estimated, and that estimate is recognised in the statement of comprehensive income as the performance obligation is satisfied.

After taking cognisance of the nature of the Authority's revenue, the effects of the introduction of IFRS 15 have not resulted in any changes to the Authority's revenue recognition model and have not had material effect on the Authority's financial statements. This standard has been applied retrospectively. Since no impact has been identified, no adjustments to comparative figures has been required.

New standards and interpretations not yet adopted

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements that are mandatory for the Authority's accounting periods beginning after 1 January 2019. The Authority has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Authority's governors are of the opinion that, with the possible exception of IFRS 16, there are no requirements that will have possible significant impact on the Authority's financial statements in the period of initial application.

Under IFRS 16, 'Leases', contract is, or contains, lease if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration. IFRS 16 requires lessees to recognise lease liability reflecting future lease payments and 'right-of-use asset' for virtually all lease contracts; an optional exemption is available for certain short-term leases and leases of low-value assets. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted.

The Authority's non-cancellable commitments on its operating leases at reporting date amount to thresholds that require the transition to IFRS 16 to result in amounts recognised on-balance-sheet, and differences in the timing and pattern of recognition of costs in respect of leases under IFRS 16, as compared to IAS 17, requiring adjustment during 2019.

The Authority have entered into long-term property and motor vehicles leases; these arrangements were classified as operating leases under IAS 17. As at the reporting date, the Authority has non-cancellable operating lease commitments in respect of long-term property and motor vehicles leases amounting to €1,061,970. The Authority's management has carried out an assessment of the impact of the standard and the governors concluded that these arrangements fall within the remits of this standard.

The Authority will apply the standard from its mandatory adoption date of 1 January 2019 and will apply the simplified transition approach. As a result, the Authority will not restate comparative amounts for the year prior to first adoption. Under this approach, the lease liability is measured at the present value of the remaining lease payments as at 1 January 2019, which management has estimated to amount to €924,973. Right-of-use assets at that date will be measured at an amount equivalent to this lease liability, with no adjustment to equity.

Notes to the financial statements (cont.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

1.1 Basis of preparation (cont.)

New standards and interpretations not yet adopted (cont.)

The adoption of IFRS 16 will also result in the replacement of operating lease rental expenditure by amortisation of the right-of-use asset, and an interest cost on the lease liability. On the basis of the lease arrangements in place at 1 January 2019, management estimates that rental costs of €500,724 for the year ending 31 December 2019 will be replaced by a notional interest charge that is expected to be in the region of €27,786, and an annual amortisation charge in the region of €480,743. This will therefore result in a reduction of approximately €7,805 in profitability for the year ending 31 December 2019.

Rental payments under IFRS 16 are allocated between interest payments and a reduction in the lease liability, with a corresponding impact on the Authority's statement of cash flows. The Authority's policy is to present interest payments as financing cash flows. Accordingly, lease payments of €500,724 for the year ending 31 December 2019 will in their entirety be reported as a financing cash flow instead of an operating cash flow.

1.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Euro, which is the Authority's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

All foreign exchange gains or losses are presented in the income statement.

1.3 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Land and buildings, comprising mainly the Authority's offices, are shown at fair value based on periodic valuation, less subsequent depreciation of buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All

Notes to the financial statements (cont.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

1.3 Property, plant and equipment (cont.)

other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to profit or loss.

Items of property plant and equipment comprise land and buildings, furniture, fixtures and fittings and equipment and are initially recognised at acquisition cost. Subsequently they are carried at acquisition cost less subsequent depreciation and impairment losses.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amount to their residual values over their estimated useful lives, as follows:

	%
Furniture, fixtures and fittings	20
Equipment	20

Buildings are depreciated over an estimated useful life of 75 years whilst improvements carried out on leased property are depreciated over the lease period, which is 3 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in the income statement. When re-valued assets are sold, the amounts included in the revaluation reserve relating to the assets are transferred to retained earnings.

1.4 Investment in subsidiary

The investment in subsidiary is accounted for by the cost method of accounting, i.e. at cost less impairment. Cost also includes directly attributable costs of the investment. Provisions are recorded where, in the opinion of the Governors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified.

The results of subsidiaries are reflected in the Authority's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement as income or an expense.

Notes to the financial statements (cont.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

1.5 Financial assets

1.5.1 Classification

From 1 January 2018, the Authority classifies its financial assets in the following measurement categories;
- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Authority's financial assets are classified at amortised cost.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held-for-trading, this will depend on whether the Authority has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Authority reclassifies debt instruments when and only when its business model for managing those assets changes.

1.5.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Authority commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Authority has transferred substantially all the risks and rewards of ownership.

1.5.3 Measurement

Subsequent measurement of debt instruments depends on the Authority's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Authority classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

Notes to the financial statements (cont.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

1.5 Financial assets (cont.)

1.5.3 Measurement (cont.)

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

From 1 January 2018, the Authority assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 1.6 for further details.

Accounting policies applied until 31 December 2017

The Authority has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Authority's previous accounting policy.

Until 31 December 2017, the Authority classified its financial assets, other than investment in subsidiary, in the following categories: loans and receivables and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Authority provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Authority's loans and receivables comprise trade and other receivables, term deposits and cash and cash equivalents in the statement of financial position.

(b) Held-to-maturity financial assets
Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Authority's management has the positive intention and ability to hold to maturity. If the Authority were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than twelve months from the end of the reporting period, which are classified as current assets.

Recognition and measurement
The Authority recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value plus transaction costs. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Authority has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

Notes to the financial statements (cont.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

1.5 Financial assets (cont.)

1.5.3 Measurement (cont.)

Impairment

The Authority assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Authority first assesses whether objective evidence of impairment exists. The criteria that the Authority uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

1.6 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less loss allowance.

IFRS 9 Financial Instruments – impairment of financial assets

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

Impairment

From 1 January 2018, the Authority assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Authority applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Accounting policy applied until 31 December 2017

A provision for impairment of trade and other receivables is established when there is objective evidence that the Authority will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a receivable is

Notes to the financial statements (cont.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

1.6 Trade and other receivables (cont.)

uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

1.7 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call together with short-term, highly liquid investments that are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value.

1.8 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.9 Provisions

Provisions for legal claims are recognised when the Authority has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.10 Revenue recognition

The Authority recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity, and when specific criteria for each of the Authority's activities have been met, as described below:

(i) Income from registration fees is recognised on the date of registration.
(ii) Income from annual fees is recognised by reference to the stage of completion of the transaction, which equates to a systematic recognition of revenue as it accrues over time.
(iii) Income derived from the Registry of Companies is recognised when payment is received which, in view of the profile of companies including dormant and defunct companies, is determined by the Authority to be the point in time when there is a probability that the economic benefits associated with the revenue will flow to the entity.
(iv) Interest income from investments is reported on an accrual basis using the effective interest method.

Notes to the financial statements (cont.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

1.11 Operating leases

Leases of assets in which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

1.12 Government grants

Grants from the Government, including national Government and EU, are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Authority will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2. FINANCIAL RISK MANAGEMENT

2.1 Financial risk factors

The Authority's activities potentially expose it to a variety of financial risks namely market risk, credit risk and liquidity risk. The Authority's risk management is coordinated by the Board of Governors and focuses on actively securing the Authority's short to medium term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Authority does not actively engage in trading of financial assets for speculative purposes nor does it write options. The most significant financial risks that the Authority is exposed to are described below.

(a) Market risk

In view that the investments in Malta Government bonds (see Note 5) are accounted for at amortised cost, the Governors do not consider that the Authority is exposed to significant market risk.

(b) Credit risk

The Authority's exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below. The Authority's exposures to credit risk as at the end of the reporting periods are analysed as follows:

		2018	2017
	Notes	€	€
Held-to-maturity investments	5	**2,169,418**	2,171,342
Trade and other receivables	7	**713,080**	1,635,713
Loans and receivables	8	**-**	6,000,000
Cash and cash equivalents	9	**5,050,862**	1,150,651
		7,933,360	10,957,706

Notes to the financial statements (cont.)

2. FINANCIAL RISK MANAGEMENT (CONT.)

2.1 Financial risk factors (cont.)

The Authority assesses the credit quality of its customers taking into account financial position, past experience and other factors. It has policies in place to ensure that sales of services are affected to customers with an appropriate credit history. The Authority monitors the performance of its receivables on a regular basis to identify incurred collection losses, which are inherent in the Authority's receivables, taking into account historical experience.

The Authority's receivables, which are not impaired financial assets, are principally in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers. None of the Authority's financial assets are secured by collateral.

As at 31 December 2018, trade receivables of €1,108,000 (2017: €612,474) were impaired, and the amount of the provisions in this respect are equivalent to these amounts. Reversal of provisions for impairment arises in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The Authority does not hold any collateral as security in respect of the impaired assets.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2018	2017
	€	€
Balance at beginning of year	**612,474**	22,833
Increase in Provision for bad debts	**495,526**	589,641
Balance at end of year	**1,108,000**	612,474

Credit risk in relation to cash and cash equivalents and held-to-maturity investments is considered to be limited, since the counterparts and issuer are reputable banks, and the Government of Malta respectively.

(c) Liquidity risk

The Authority is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise trade and other payables (Note 10). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Authority's obligations.

The Authority monitors liquidity risk by reviewing expected cash flows, and ensures that no additional financing facilities are expected to be required over the coming year. The Authority's liquidity risk is not deemed material in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments.

2.2 Capital risk management

The Authority's equity, as disclosed in the statement of financial position, constitutes its capital. The Authority's objectives when managing capital are to safeguard the respective entity's ability to continue as a going concern in order to provide returns and benefits for stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Authority's equity is maintained in line with the provisions set within the Malta Financial Services Authority Act, 1988.

Notes to the financial statements (cont.)

2. FINANCIAL RISK MANAGEMENT (CONT.)

2.2 Capital risk management (cont.)

In view of the nature of the Authority's activities and its financial position, the capital level as at the end of the reporting period is deemed adequate by the Governors.

2.3 Fair values of financial instruments

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as Level 1 in view of the Quoted prices (unadjusted) in active markets for identical assets or liabilities.

The following table presents the authority's assets and liabilities that are measured at fair value at the respective dates:

	Level 1
	€
31 December 2018	
Held-to-maturity financial assets	**2,699,586**
31 December 2017	
Held-to-maturity financial assets	2,772,093

At 31 December 2018 and 2017 the carrying amounts of cash at bank, receivables, payables and accrued expenses reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the Governors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

Notes to the financial statements (cont.)

4. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Furniture, fixtures and fittings	Equipment	Total
	€	€	€	€
Year ended 31 December 2017				
Opening net book amount	12,096,973	252,289	673,698	13,022,960
Additions	459,243	93,568	790,823	1,343,634
Disposals	-	(3,231)	(82,343)	(85,574)
Depreciation charge	(233,022)	(45,914)	(407,473)	(686,409)
Depreciation released on disposal	-	3,228	76,289	79,517
Revaluation surplus (Note 13)	2,351,766	-	-	2,351,766
Closing net book amount	**14,674,960**	**299,940**	**1,050,994**	**16,025,894**
At 31 December 2017				
Cost or valuation	15,227,267	2,233,514	5,288,425	22,749,206
Accumulated depreciation	(552,307)	(1,933,574)	(4,237,431)	(6,723,312)
Net book amount	**14,674,960**	**299,940**	**1,050,994**	**16,025,894**
Year ended 31 December 2018				
Opening net book amount	14,674,960	299,940	1,050,994	16,025,894
Additions	331,959	198,664	677,068	1,207,691
Disposals	-	-	(5,149)	(5,149)
Depreciation charge	(294,655)	(82,240)	(501,998)	(878,893)
Depreciation released on disposal	-	-	4,656	4,656
Closing net book amount	**14,712,264**	**416,364**	**1,225,571**	**16,354,199**
At 31 December 2018				
Cost or valuation	15,559,226	2,432,178	5,960,344	23,951,748
Accumulated depreciation	(846,962)	(2,015,814)	(4,734,773)	(7,597,549)
Net book amount	**14,712,264**	**416,364**	**1,225,571**	**16,354,199**

Fair value of land and buildings

The Authority's office building was revalued on 31 December 2017 by independent professionally qualified valuers. The valuation was conducted by DeMicoli & Associates (a firm of architects). The book value of the property was adjusted to the revaluation and the resultant surplus, was credited to the revaluation reserve (refer to Note 13). The Board of Governors has reviewed the carrying amount of the property as at 31 December 2018 and no adjustments to the carrying amount were deemed necessary as at that date taking cognisance of developments that occurred during the current financial year.

Notes to the financial statements (cont.)

4. PROPERTY, PLANT AND EQUIPMENT (CONT.)

The Authority is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

The recurring property fair value measurement at 31 December 2018 uses significant unobservable inputs and is accordingly categorised within Level 3 of the fair valuation hierarchy.

The Authority's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the year ended 31 December 2018.

A reconciliation from the opening balance to the closing balance of non-financial assets for recurring fair value measurements categorised within Level 3 of the value hierarchy, is reflected in the table above.

Valuation processes

The valuation of the property is performed regularly on the basis of valuation reports prepared by independent and qualified valuers. At the end of every reporting period, the COO (Chief Operations Officer) assesses whether any significant changes in the major inputs have been experienced since the last external valuation. The COO reports to the Board of Governors on the outcome of this assessment.

When an external valuation report is prepared, the information provided by the valuers – and the assumptions and the valuation models used by the valuers – are reviewed by the COO. This includes a review of fair value movements over the period. When the COO considers that the valuation report is appropriate, the valuation report is recommended to the Board of Governors. The Board of Governors considers the valuation report as part of its overall responsibilities.

Valuation techniques

The Level 3 fair valuation of the Authority's land and buildings was determined by using a comparative approach whereby the current selling prices and rental values of similar developments were compared in order to obtain an equitable rental value of the property. The significant unobservable inputs in the valuation include:

Equivalent rental values	based on the actual location, type and quality of property supported by current market rents for similar properties.
Capitalisation rates	based on actual location, size and quality of the property and taking into account market data at the valuation date.

Notes to the financial statements (cont.)

4. PROPERTY, PLANT AND EQUIPMENT (CONT.)

Information about fair value measurements using significant unobservable inputs (level 3)

Description	Fair value at 31 December 2018 and 2017	Valuation technique	Significant unobservable inputs: Equivalent rental value	Significant unobservable inputs: Capitalisation Rate
	€		€	%
Office building	14.375m	Comparative and Investment method	0.89m	6.25

The higher the rental yield and the lower the capitalisation rate, the higher the fair value. Conversely, the lower the rental value and the higher the capitalisation rate, the lower the fair value.

Historical cost of land and buildings

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2018	2017
	€	€
Cost	**10,338,536**	10,006,577
Accumulated depreciation	**(620,312)**	(552,307)
Net book amount	**9,718,224**	9,454,270

5. FINANCIAL ASSETS

Financial assets include the following investments:

	2018	2017
	€	€
Non-current		
Held-to-maturity investments	**2,169,418**	2,171,341
As at 31 December	**2,169,418**	2,171,341

The movements during the year in held-to-maturity investments, which comprise Malta Government Bonds, were as follows:

	2018	2017
	€	€
Opening net book amount	**2,171,342**	2,173,265
Amortisation	**(1,924)**	(1,923)
Closing net book amount	**2,169,418**	2,171,342

Notes to the financial statements (cont.)

6. INVESTMENT IN SUBSIDIARY

	2018	2017
	€	€
Year ended 31 December		
At beginning of year	-	106,570
Impairment release	-	39,479
Reduction in investment	-	(146,049)
Carrying amount	-	-
Year ended 31 December		
Cost	-	2,329
Fair value loss	-	(2,329)
Carrying amount	-	-

The subsidiary at 31 December 2018 and 2017 is shown below:

Subsidiary undertaking	Registered office	Class of shares held	Percentage of shares held
			%
Malta International Training Centre Limited	Malta Financial Services Authority Notabile Road Attard BKR 3000 Malta	Ordinary shares	99.9

The following information available to the Authority relates to Malta International Training Centre Limited (''the subsidiary''):

	Assets	Liabilities	Turnover	Loss before tax
	€	€	€	€
2018	**57,679**	**84,624**	**128,796**	**(26,455)**
2017	127,793	128,285	146,157	(38,533)

The Governors consider that the effect of consolidating the assets, liabilities and results of the subsidiary in the Authority's financial statements is not material.

The Governors have also entered into discussions to sell its investment on a going concern basis.

Notes to the financial statements (cont.)

7. TRADE AND OTHER RECEIVABLES

	2018	2017
	€	€
Current		
Trade receivables – gross	**1,698,830**	2,089,195
Less: Provision for impairment of trade receivables	**(1,108,000)**	(612,474)
Trade receivables – net	**590,830**	1,476,721
Amounts due by subsidiary	**69,272**	69,272
Prepayments	**421,555**	458,412
Accrued income	**52,978**	89,720
	1,134,635	2,094,125

8. LOANS AND RECEIVABLES

	2018	2017
	€	€
Deposits with banks or credit institutions	**-**	6,000,000

The above deposits earn interest at a fixed rate.

9. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2018	2017
	€	€
Cash and cash equivalents	**2,905,828**	1,150,651
Technical account held at the Central Bank of Malta (Note 10)	**2,145,034**	-
	5,050,862	1,150,651

Notes to the financial statements (cont.)

10. TRADE AND OTHER PAYABLES

	2018	2017
	€	€
Current		
Trade payables	**2,429,583**	858,138
Amount due to Registry of Companies Agency	**2,656,178**	-
Amount due to Government	**-**	2,460,366
Other creditors	**2,212,152**	-
Indirect taxation	**515,748**	255,470
Accruals	**1,117,181**	291,506
Deferred income	**1,041,306**	1,082,663
	9,972,148	4,948,143

The Authority provisionally holds on deposit with the Central Bank of Malta an amount of €2,145,034, included within other creditors, as part of its duty as a regulatory body.

11. CAPITAL FUND

The capital fund of €1,164,687 represents the initial contribution by the Government to the Authority in 1994 upon its establishment.

12. ASSET FUNDING RESERVE

	2018	2017
	€	€
Balance as at 1 January	**-**	11,403,568
Transfer for the year	**-**	(11,403,568)
Balance as at 31 December	**-**	-

The asset funding reserve had been created to provide for the purchase of property, plant and equipment.

On 13 April 2017, by virtue of Act No. XVI of 2017, Article 45, it has been established that the Authority's Reserve Fund shall not at any time exceed the equivalent of the operational expenses registered in the preceding financial year as disclosed in the audited financial statements. As a result, a transfer of €11,403,568 to the Reserve Fund took place during 2017.

Notes to the financial statements (cont.)

13. REVALUATION RESERVE

	2018	2017
	€	€
Balance as at 1 January	**5,220,690**	2,868,924
Net revaluation of land and buildings (Note 4)	-	2,351,766
As at 31 December	**5,220,690**	5,220,690

The revaluation reserve is not distributable.

14. EMPLOYEE PENSION FUND

	2018	2017
	€	€
Balance as at 1 January	**925,002**	850,002
Transfer for the year	**75,000**	75,000
As at 31 December	**1,000,002**	925,002

The employee pension fund reserve has been created to set aside reserves to prepare for the potential employee pension fund that may be set up for the benefit of the employees at the opportune time.

15. DEVELOPMENT RESERVE

	2018	2017
	€	€
Balance as at 1 January	-	8,579,795
Transfer for the year	-	(8,579,795)
As at 31 December	-	-

The development reserve had been created to set aside reserves intended to finance long term projects to improve, upgrade and expand the Authority's facilities and services.

On 13 April 2017, by virtue of Act No. XVI of 2017, Article 45, it has been established that the Authority's Reserve Fund shall not at any time exceed the equivalent of the operational expenses registered in the preceding financial year as disclosed in the audited financial statements. As a result, a transfer of €8,579,795 to the Reserve Fund took place during 2017.

Notes to the financial statements (cont.)

16. EXPENSES BY NATURE

	2018	2017
	€	€
Depreciation of property, plant and equipment (Note 4)	**878,893**	686,409
Employee benefit expense (Note 17)	**12,532,762**	10,830,652
Professional fees	**5,986,526**	748,288
Increase in provision for bad debts	**495,526**	589,641
EU Presidency	**-**	431,000
Promotional and sponsorship expenses	**646,457**	242,439
Governors' emoluments	**140,940**	167,212
Other administrative expenses	**3,426,379**	3,919,257
Total operating expenses	**24,107,483**	17,614,898

Auditor's fees

Fees charged by the auditor for the statutory audit amount to €7,000 (2017: €7,000).

17. EMPLOYEE BENEFIT EXPENSE

	2018	2017
	€	€
Wages and salaries	**10,721,379**	9,764,764
Social security costs	**659,344**	640,199
Other staff costs	**1,152,039**	425,689
	12,532,762	10,830,652

Average number of persons employed by the Authority during the year:

	2018	2017
	€	€
Managerial	**256**	241
Administration	**70**	63
	326	304

During 2018, the Authority has offered its employees a Voluntary Severance Scheme for which the current year's expense, included within other staff costs, amounted to €540,417.

Notes to the financial statements (cont.)

18. FINANCE INCOME

	2018	2017
	€	€
Interest income from demand deposits	**17,481**	45,086
Interest income from Government bonds	**106,976**	106,870
	124,457	151,956

19. INCOME

Income represents fees from services rendered during the year as follows:

	2018	2017
	€	€
Authorisations	**979,763**	562,175
Securities and markets supervision	**2,576,515**	3,105,116
Insurance and pensions supervision	**2,359,425**	1,951,775
Conduct	**620,116**	580,060
Banking supervision	**4,246,631**	4,230,521
Listing authority income	**377,250**	511,300
Registry of companies	**5,047,971**	14,111,641
Total income	**16,207,671**	25,052,588

20. OTHER INCOME

	2018	2017
	€	€
EU grants designated for specific purposes	**18,452**	18,452

EU funds designated for specific purposes amounting to €7,429 at 31 December 2018 (2017: €25,881) are amortised to profit or loss over the term of the service concession.

21. TAX EXPENSE

Section 30 of the Malta Financial Services Authority Act, Cap 330 exempts the Authority from any liability to pay income taxes.

Notes to the financial statements (cont.)

22. CASH (USED IN)/GENERATED FROM OPERATIONS

Reconciliation of operating (deficit)/surplus generated from operations:

	2018	2017
	€	€
Operating (deficit)/surplus for the year	**(7,899,812)**	7,437,690
Adjustments for:		
Depreciation of property, plant and equipment (Note 4)	**878,893**	686,409
Loss/(gain) on sale of property, plant and equipment (Note 4)	**493**	(2,934)
Amortisation of investment (Note 5)	**1,924**	1,923
Increase in provision for bad debts (Note 7)	**495,526**	589,641
Bad debts written off	**5,200**	-
Changes in working capital:		
Trade and other receivables	**458,764**	(1,313,972)
Trade and other payables	**5,024,005**	(395,158)
Cash (used in)/generated from operations	**(1,035,007)**	7,003,599

23. COMMITMENTS

	2018	2017
	€	€
Capital expenditure		
Capital expenditure that has been authorised by the Board of Governors but has not yet been contracted for	**2,568,965**	1,509,675
Operating leases		
Less than one year	**582,948**	563,013
Between 2 and 5 years	**479,022**	962,929
	3,630,935	3,035,617

24. CONTINGENCIES

(a) As disclosed in Note 17, during 2018 the Authority has offered its employees a Voluntary Severance Scheme for which the current year's expense amounted to €540,417. The Authority has offered this scheme to other employees for which agreements were not yet finalised as at 31 December 2018 and accordingly no provision has been made in this respect in these financial statements.

(b) The Authority has not provided for claims instituted against it by a number of persons on the basis that the proceedings are still at an early stage and the potential financial impact and probable outcome of these claims has as yet not been quantified.

Notes to the financial statements (cont.)

25. RELATED PARTY TRANSACTIONS

Except for transactions disclosed or referred to previously, the following significant transactions, which were carried out principally with related entities, have a material effect on the operating results and financial position of the Authority:

	2018	2017
	€	€
Amounts due Registry of Companies Agency	**2,656,178**	-
Surplus payable to Government	**-**	13,460,361

Key management personnel compensation, consisting of Governors' remuneration is disclosed in Note 16.

26. STATUTORY INFORMATION

The Malta Financial Services Authority (MFSA) ('the Authority') is the single regulator for financial services in Malta enacted by virtue of the Malta Financial Services Act, 1988 and reports to the Maltese Parliament.

On 20 March 2018, by virtue of Act No. VI of 2018, Articles 2(2) and 6, it has been established that the Register of Companies shall no longer form part of the Malta Financial Services Authority.

08

Appendices

APPENDIX I – Financial Services Legislation published during the year 2018

Primary Legislation

1) Malta Financial Services (Amendment) Act, 2018
    - Published as Act VI of 2018 on 20/03/18

2) Various Financial Services Laws (Amendment) Act, 2018
    - Published as Act XXVI of 2018 on 10/07/18
    - Commencement Notice published as LN 235 of 2018 on 20.07.2018

3) Various Financial Services Laws (Amendment No 2) Act, 2018
    - Published as Act XLIV of 2018 on 21/12/18

Secondary Legislation

1) Investment Services Act and Financial Markets Act - OTF & MTF (Amendment) Regulations
    - Published as LN 56 of 2018 on 20/02/18

2) Prospectus of Collective Investment Schemes (Amendment) Regulations
    - Published as LN 75 of 2018 on 06/03/18

3) Malta Financial Services Authority Act (Indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds) (Amendment) Regulations, 2018
    - Published as LN 185 of 2018 on 12/06/18

4) European Passport Rights for Intermediaries (Revocation) Regulations, 2018
    - Published as LN 236 of 2018 on 20/07/18

5) Insurance Distribution (Exemptions) Regulations, 2018
    - Published as LN 237 of 2018 on 20/07/18

6) European Passport Rights for Intermediaries Regulations, 2018
    - Published as LN 238 of 2018 on 20/07/18

7) Insurance Distributions (Penalties and Measures) Regulations, 2018
    - Published as LN 239 of 2018 on 20/07/18

8) Insurance Distribution (Fees)(Amendments) Regulations, 2018
    - Published as LN 240 of 2018 on 20/07/18

9) Insurance Business (Penalties for Offences and Infringements) (Amendment) Regulations, 2018
    - Published as LN 241 of 2018 on 20/07/18

10) Credit Institutions and Financial Institutions (Payment Accounts) (Amendments) Regulations, 2018
    - Published as LN 324 of 2018 on 12/10/18
    - Commencement Notice published as LN 354 of 2018 on 30.10.2018

11) Market in Financial Instruments (Amendment) Regulations
    - Published as LN 417 of 2018 on 11/12/18

12) Financial Markets Act (OTC Derivatives, Central Counterparties and Trade Repositories) (Amendment) Regulations
    - Published as LN 431 of 2018 on 12/12/18

13) Declaration of Bank Holidays Order, 2018
    - Published as LN 435 of 2018 on 18/12/18

APPENDIX II - Rules issued or amended in 2018

Conduct of Business

Issuing of the Conduct of Business Rulebook implementing the provisions of a number of EU directives, including 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 ("MIFID II")[1] and Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast) ("IDD").

Insurance

Insurance Distribution Rulebook

A number of current insurance intermediaries rules were aligned and updated as part of the transposition exercise of the Insurance Distribution Directive. The insurance intermediaries rules were renamed as Insurance Distribution Rules issued under the Insurance Distribution Act and are consolidated in a single rulebook which is divided in two parts and consists of 15 Chapters. IPSU published the Insurance Distribution Rules on the MFSA website on the 12 July 2018. These Insurance Distribution Rules came into force on the 1 October 2018.

Banking

Revision of Banking Rules 11, 16

Virtual Financial Asset Framework

Chapter 1 of the VFA Rulebook – Virtual Financial Asset Rules for VFA Agents.
Chapter 2 of the VFA Rulebook – Virtual Financial Asset Rules for Issuers of VFAs.
Glossary of Terms – The Glossary provides the definitions for terms used in the Rules.

Listing Authority

Amendments to Chapters 8 and 11 of the Listing Rules

[1] Transposition in the Conduct of Business Rulebook is only with respect to the parts of the Directive which address the conduct of business of investment firms and credit institutions when these are providing investment services in relation to financial instruments as defined in the Directive itself.

APPENDIX III - Circulars issued in 2018

Company Service Providers

14/09/2018	Licence proposing individuals for an Approved Position
01/11/2018	Licence Holders and Applicants who are being proposed to hold a position which requires the MFSA's prior approval

Conduct of Business

07/09/2018	Mystery shopping exercise on the opening of bank accounts
18/09/2018	Imposition of Negative Interest Rates on Euro Denominated Deposits

Banking Supervision

05/01/2018	Circular to Credit Institutions
16/02/2018	Revised Draft ITS on Supervisory Reporting Templates
19/02/2018	Changes to Banking Rule 13
05/03/2018	Changes to Banking Rule 16
10/04/2018	Update to Circular to Payment Institutions and Electronic Money Institutions on ongoing own funds requirements
14/09/2018	Licence proposing individuals for an Approved Position
22/10/2018	Banking Rule BR/11
01/11/2018	Licence Holders and Applicants who are being proposed to hold a position which requires the MFSA's prior approval
14/11/2018	Revised Draft ITS on Supervisory Reporting
27/11/2018	Distribution of dividends
10/12/2018	Submission of online Personal Questionnaires Personal Questionnaire Template

Insurance and Pensions Supervision

Insurance and Pensions	
08/02/2018	Completion of Business of Insurance Intermediaries Statements
19/02/2018	Changes to Chapter 3 of the Insurance Rules issued under the Insurance Business Act (CAP.403)
06/06/2018	Proposed amendments to the Pension Rules issued under the Retirement Pensions Act pursuant to the MFSA Consultation of 6th December 2017
12/07/2018	Publication of New Insurance Distribution Rules
31/07/2018	Member of the Board of Directors and the person within the management structure of the Undertaking responsible for the distribution activities of an insurance undertaking
31/07/2018	New Insurance Distribution (Exemption) Regulations, 2018 (L.N. 237 of 2018)
14/09/2018	Licence proposing individuals for an Approved Position
01/11/2018	Licence Holders and Applicants who are being proposed to hold a position which requires the MFSA's prior approval
10/12/2018	Submission of online Personal Questionnaires
Solvency II	
08/02/2018	Completion of national specific templates forming part of Chapter 8 of the Insurance Rule Book
29/03/2018	Solvency II Circular for Insurance and Reinsurance Undertakings

Anti-Money Laundering

09/03/2018	FATF identification of jurisdictions with strategic deficiencies
18/04/2018	Supervisory Guidance Paper on ML and TF Institutional/Business Risk Assessment
08/10/2018	Supervisory Guidance Paper on Politically Exposed Persons
15/10/2018	FIAU Guidance Note on AML/CFT Obligations in relation to Payment Accounts with Basic Features
23/10/2018	FATF identification of jurisdictions with strategic deficiencies

FinTech

13/04/2018	Consultation Paper on the Financial Instrument Test
24/07/2018	Financial Instrument Test
20/09/2018	Circular to Persons Involved in DLT Asset Activity and Services
17/10/2018	Competence Assessment of Prospective VFA Agents
30/10/2018	Publication of the Virtual Financial Assets Rules for Issuers of VFAs
31/10/2018	Transitory Provision under Article 62 of the VFA Act
01/11/2018	The Virtual Financial Assets Act into force
26/11/2018	VFA Agents Approved Courses
04/12/2018	Notification form in relation to the Transitory provision under Article 62 of the VFA Act
21/12/2018	VFA Agents Approved Courses
24/12/2018	Issuers of VFAs

Trust and Fiduciaries

21/06/2018	Circular addressed to Trustees Authorised in terms of Article 43 or Registered in terms of Article 43B of the Trusts and Trustees Act
14/09/2018	Licence proposing individuals for an Approved Position
01/11/2018	Licence Holders and Applicants who are being proposed to hold a position which requires the MFSA's prior approval
10/12/2018	Submission of online Personal Questionnaires
21/12/2018	Invitation – Update on the Trusts Ultimate Beneficial Ownership Register - Authorised/ Registered Trustees

Securities and Markets Supervision

EMIR	
05/06/2018	European Market Infrastructure Regulation ('EMIR')
18/07/2018	European Market Infrastructure Regulation ('EMIR') - CCPs Established in the UK
13/08/2018	Spots and Foreign Exchange (FX) Forward Contracts and their scope in MiFID II
07/09/2018	EMIR - On-site Compliance Visits Findings
SFTR	
23/04/2018	Securities Financing Transactions Regulation No 2015/2365 ('SFTR' or 'the Regulation') - Requirements affecting, inter alia, Managers of UCITS and AIFs
Investment Services	
19/02/2018	Changes to Part A of the Investment Services Rules for Investment Services Providers
24/04/2018	Survey by UK's Financial Conduct Authority ("FCA") for EEA firms passporting into the UK
02/05/2018	Changes to the MFSA's LH Portal pertaining to the AIFMD reporting procedures
25/07/2018	Circular to investment services licence holders which qualify as MiFID firms regarding the Joint ESMA and EBA Guidelines on the assessment of suitability of members of the management body and key function holders
14/09/2018	Licence proposing individuals for an Approved Position
04/10/2018	Licence Holder Corporate Profile
08/10/2018	Changes to Appendix 2D
01/11/2018	Licence Holders and Applicants who are being proposed to hold a position which requires the MFSA's prior approval
13/11/2018	Revised Part BI of the Investment Services Rules for Investment Services Providers
07/12/2018	Circular to Collective Investment Schemes, Fund Managers and Investment Firms licensed in Malta as well as Recognised Fund Administrators in relation to submission of regulatory reporting
10/12/2018	Submission of online Personal Questionnaires
28/12/2018	ESMA Statement – Reminder to firms on their MiFID obligations on the disclosure of information to clients in the context of the United Kingdom withdrawing from the European Union
AIFMD	
25/04/2018	Publishing of a revised version of MFSA's Frequently Asked Questions document concerning the AIFMD
02/05/2018	Changes to the MFSA's LH Portal pertaining to the AIFMD reporting procedures
05/09/2018	Outcome of Compliance Inspections held at Fund Managers and Collective Investment Schemes
07/12/2018	Circular to Collective Investment Schemes, Fund Managers and Investment Firms licensed in Malta as well as Recognised Fund Administrators in relation to submission of regulatory reporting
UCITS	
05/09/2018	Outcome of Compliance Inspections held at Fund Managers and Collective Investment Schemes
07/12/2018	Circular to Collective Investment Schemes, Fund Managers and Investment Firms licensed in Malta as well as Recognised Fund Administrators in relation to submission of regulatory reporting

Prevention of Market Abuse	
09/05/2018	Persons Discharging Managerial Responsibility (PDMR) Notifications Section on the Issuers' Website
11/05/2018	Market Abuse Regulation ('MAR')
04/10/2018	Market Abuse Regulation – Q&A Document
24/10/2018	Prevention and Detection of Market Abuse by Investment Firms and Trading Venues
13/11/2018	Market Abuse Regulation – Q&A Document
10/12/2018	Delay in Disclosure of Inside Information by Issuers

MiFID and MiFIR	
02/01/2018	Markets in Financial Instruments Directive ('MIFID II') and Markets in Financial Instruments Regulations ('MIFIR') - Transaction Reporting - End of Phase 3 - 'Go-Live'
20/02/2018	Markets in Financial Instruments Directive ('MiFID II') and Markets in Financial Instruments Regulation ('MiFIR')
11/04/2018	Revised Financial Markets Rules for Trading Venues, DRSPs and Central Securities Depositories
11/04/2018	Markets in Financial Instruments Directive ('MiFID II') and Markets in Financial Instruments Regulation ('MiFIR') - Reporting of Corporate Actions
21/06/2018	Temporary Period for LEIs to end on the 2 July 2018
13/08/2018	Spots and Foreign Exchange (FX) Forward Contracts and their scope in MiFID II

Financial Markets	
11/04/2018	Revised Financial Markets Rules for Trading Venues, DRSPs and Central Securities Depositories
06/06/2018	Regulation (eu) no 909/2014 of the Central Securities Depository Regulation ('CSDR')

Collective Investment Schemes	
29/01/2018	Supplementary Conditions applicable to Collective Investment Schemes Investing in Virtual Currencies
28/03/2018	Outcome of Supervisory Meetings with Collective Investment Schemes
28/03/2018	Circular on Collective Investment Schemes which have not commenced the licenced activities and / or have a Zero NAV
24/04/2018	Survey by UK's Financial Conduct Authority ("FCA") for EEA firms passporting into the UK
02/05/2018	Changes to the MFSA's LH Portal pertaining to the AIFMD reporting procedures
16/05/2018	Regulatory developments relating to the MMF Regulation particularly in the context of stress tests scenarios under Article 28 of the MMF Regulation
16/05/2018	Revised rules for Alternative Investment Funds
16/05/2018	Revised rules for Alternative Investment Funds
11/07/2018	Self-assessment in relation to the evaluation of potential closet indexing practices adopted by UCITS and Retail AIFs
02/08/2018	Submission of Central Bank of Malta statistical returns
05/09/2018	Circular on the outcome of Compliance Inspections held at Fund Managers and Collective Investment Schemes
14/09/2018	Licence Holders and Applicants for a Licence proposing individuals for an Approved Position
04/10/2018	Licence Holder Corporate Profile
07/12/2018	Submission of regulatory reporting

APPENDIX IV – Consultation Papers issued in 2018

MFSA Consultations issued in 2018

08/01/2018	Discussion Paper on Initial Coin Offerings, Virtual Currencies and related Service Providers – Extension of Consultation Period
24/01/2018	Consultation on Proposed Amendments to the Financial Institutions Act (Cap. 376) and the Banking Act (Cap.371)
02/03/2018	Consultation on Amendments to the Banking Act
16/03/2018	Consultation on Knowledge and Ability Requirements and Continuous Professional Development in terms of the Insurance Distribution Directive
13/04/2018	Consultation Paper on the Financial Instrument Test
20/04/2018	Consultation on Pension Rules implementing Minimum Requirement on the Acquisition and Preservation of Pension Rights
08/05/2018	Consultation on Ancillary Insurance Intermediaries in terms of the Insurance Distribution Directive
04/07/2018	Consultation Paper on the Virtual Financial Assets Regulations to be issued under the Virtual Financial Services Act
12/07/2018	Consultation Paper on the Virtual Financial Assets Rules for VFA Agents
30/07/2018	Consultation Paper on the Virtual Financial Assets Rules for Issuers of Virtual Financial Assets
21/08/2018	Consultation Paper on achieving a Higher Degree of Investor Protection under the Virtual Financial Assets Act
31/08/2018	Consultation Paper on the Virtual Financial Assets Rules for VFA Service Providers
04/09/2018	Consultation Paper on raising the bar for VFA Agents
19/10/2018	Consultation Paper - List of the most representative services linked to a payment account
22/10/2018	Consultation on the Proposed Amendment to the Retirement Pensions Act
16/11/2018	Consultation on Amendments to the Pension Rules for Personal Retirement Schemes issued under the Retirement Pensions Act

APPENDIX V: Licensing in Numbers

BANKING

Credit and Financial Institutions	Total licences at end 2016	Total licences at end 2017	Total licences at end 2018
Credit Institutions	27	25	24
Financial Institutions	42	48	49
Of which:			
Authorised to provide payment services	28	35	38
Authorised to issue electronic money	12	14	15

INSURANCE

Insurance Undertakings	Total licences at end 2016	Total licences at end 2017	Total licences at end 2018
Non-Life	46	46	51
Life	7	8	8
Composite	2	2	2
Reinsurance	7	7	7
TOTAL	**60**	**63**	**68**
Of which:			
Affiliated	8	8	8
Protected Cell Companies (and cells)	12 (32 cells)	14 (34 cells)	16 (36 cells)
Insurers of Domestic origin	8	8	8

Reinsurance Special Purpose Vehicles	Total licences at end 2017	Total licences at end 2018
Reinsurance Special Purpose Vehicles	1	1

Insurance Intermediaries: Companies	Total licences at end 2016	Total licences at end 2017	Total licences at end 2018
Enrolled Insurance Managers	11	11	11
Of which PCCs (and cells)	3 (2 cells)	3 (2 cells)	3 (2 cells)
Enrolled Insurance Agents	15	16	16
Enrolled Insurance Brokers	30	31	31
Of which PCCs (and cells)	2 (3 cells)	2 (3 cells)	2 (3 cells)

Insurance Intermediaries: Individuals[2]	Total licences at end 2016	Total licences at end 2017	Total licences at end 2018
Registered Insurance Managers	24	20	23
Registered Insurance Agents	31	32	25
Registered Insurance Brokers	94	100	101
Tied Insurance Intermediaries[3]	473	474	435

[2] Article 11 of the Insurance Intermediaries Act, 2006 provides that no person shall act as insurance agent or insurance manager unless one or more of the company's directors are registered in the Agents Register and the Managers Register and the insurance intermediaries activities are carried on under the management of a registered person. As from 1st April 2007, the Authority started registering individual applicants who have been accepted for registration in the said Registers.

[3] Includes both individuals and companies. Figures may not sum up due to conversion of licences.

PENSIONS

Authorisations and registrations in terms of Retirement Pensions Act

	Total registrations at end 2016	Total registrations at end 2017	Total registrations at end 2018
Retirement Schemes	46	50	55
Retirement Funds	2	2	3
Retirement Scheme Administrators	17	16	15
Investment Managers (Registered)	5	5	6
Investment Managers (Exempted)	5	6	6
Back-Office Administrators (Recognised)	2	4	4
Back-Office Administrators (Exempted)	2	4	4
Custodian (Exempted)	-	1	1
Custodian (Registered)	-	-	1

SECURITIES

Investment Services

	2017			2018		
	New licences	Surrendered licences	Total licences	New licences	Surrendered licences	Total licences[4]
Category 1a	1	-	14	2	4	11[5]
Category 1b	1	1	4	4	1	9[6 7]
Category 2	14	9	121	8	14	115
Category 2 & 4a	-	-	6	1	-	6[8]
Category 3	1	-	12	1	2	10[9]
Category 3 & 4a	-	-	2	-	-	3[10]
Category 4a	-	-	1	-	-	1
Category 4b	-	-	2	-	1	1
Total	17	10	162	11	17	156

Recognised Fund Administrators

	2017			2018		
	New recognitions	Surrendered recognitions	Total recognitions	New recognitions	Surrendered recognitions	Total recognitions
Recognised Fund Administrators	-	1	26	-	2	24

[4] Includes both individuals and companies. Figures may not sum up due to conversion of licences.
[5] One License was converted from Category 1A to Category 1B
[6] Ibid.
[7] One Licence was converted from Category 3 to Category 1B
[8] One Licence was converted from Category 2&4A to Category 3&4A
[9] Ibid.
[10] Ibid.

Collective Investment Schemes							
		2017			2018		
		New licences	Surrendered licences	Total licences	New licences	Surrendered licences	Total licences
AIFs		9	12	101	19	6	134[11]
	Of which ICs	-	-	3	5	1	9[12]
PIFs		58	49	450	33	62	401[13]
	Of which ICs	3	1	18	4	6	14[14]
Retail Non-UCITS		-	2	5	-	-	5
Recognised Private Schemes		-	1	7	-	-	7
UCITS		30	10	114	11	7	118
	Of which ICs	-	-	-	-	-	-
Total		97	74	677	63	75	665

Notified Alternative Investment Funds						
	2017			2018		
	New notifications	Surrendered notifications	Total notifications	New notifications	Surrendered notifications	Total notifications
NAIFs	17	1	18	18	7	29

Recognised Incorporated Cell Companies						
	2017			2018		
	New licences	Surrendered licences	Total licences	New licences	Surrendered licences	Total licences
Recognised Incorporated Cell Companies	1	-	6	-	-	6
Incorporated Cells	3	1	21	9	7	23

TRUSTS SERVICES

Authorised Trustees, Nominees and Trusts	Total authorisations at end 2016	Total authorisations at end 2017	Total authorisations at end 2018
Authorisations in terms of the Trusts and Trustees Act (Trustees/ Fiduciary Service Providers/ Administrators of Private Foundations)	158	167	171
Nominees[15]	12	11	10
Trusts registered in terms of the Trust Act, 1988[j]	71	62	61

COMPANY SERVICES PROVIDERS

Company Services Providers	Total registrations at end 2016	Total registrations at end 2017	Total registrations at end 2018
Registrations in terms of the Company Services Providers Act	140	172	186

[11] 20 PIF funds/ sub-funds had their licenses revised to AIF funds/ sub-funds.
[12] Two PIF funds/ sub-funds established as Incorporated Cells had their licenses revised to AIF funds/ sub-funds.
[13] 20 PIF funds/ sub-funds had their licenses revised to AIF funds/ sub-funds.
[14] Two PIF funds/ sub-funds established as Incorporated Cells had their licenses revised to AIF funds/ sub-funds.
[15] The coming into force of the Trusts & Trustees Act in 2005 brought the issuing of licences for trusts and nominee services to an end. Accordingly, these licences continued to be phased out.

SECURITISATION VEHICLES

Notifications in terms of the Securitisation Act	Total notifications at end 2016	Total notifications at end 2017	Total notifications at end 2018
Notified Securitisation Vehicles	34	40	48
Of which notified Securitisation Cell Companies	10	15	20
(and cells)	(13)	(26)	(42)

LISTING AUTHORITY

THE MALTESE CAPITAL MARKET

Malta Stock Exchange

Approved and admitted to listing – Number of approvals

Issue Type	2017	2018
Corporate Bonds	12	6
MGS	2	1
Treasury Bills	1	
Shares (Equity)	3	2
Asset Backed Securities		3
Funds incl. sub-funds (units of funds)	4	7
Total	**22**	**22**

Approved and admitted to listing - Aggregate Nominal Value

	Aggregate Nominal Value	
	2017 (€)	2018 (€)
Total Nominal Value	780,596,800	203,708,623

Market turnover on the Malta Stock Exchange

	Aggregate Trading Turnover			
	Equities (€ millions)	Bonds (€ millions)	MGS (€ millions)	Total (€ millions)
2017	87.98	76.47	403.83	568.28
2018	86.30	93.66	212.71	392.67

LISTINGS ON THE EWSM

Approved and admitted to listing – Number of approvals

Issue Type	2017	2018
Asset Backed Securities	4	1
Bonds	3	5
Notes	6	
Total	**13**	**6**

▶ THE REGISTRY OF COMPANIES

Total Registrations and Active Registrations

	2016		2017		2018	
	Total Registrations since the inception of ROC	Net Active	Total Registrations since the inception of ROC	Net Active	Total Registrations since the inception of ROC	Net Active
Companies	79,193	52,949	84,503	55,853	90,285	48,638
Partnerships - "En Nom Collectif"	1,647	1062	1,722	1,098	1,804	1,150
Partnerships - "En Commandite"	185	141	218	159	245	166

New Registrations

Year	Companies	Partnerships	Total
2016	5,166	103	5,269
2017	5,304	109	5,413
2018	5,313	102	5,415

Mergers and Liquidations

	Mergers	Total companies placed into liquidation
2016	214	1,567
2017	218	1,687
2018	219	1,666

Redomiciliation of companies

Total inward redomiciled companies (2016 - 2018)

	Total redomiciled companies
2016	99
2017	106
2018	147

Total inward redomiciled companies (Share)

	Total redomiciled companies – 2018 (%)
EU countries	22
Non-EU Countries	78

Breakdown of redomiciled companies in 2018 by type of business

Category	
Holding	98
Other	27
Real Estate	1
Marketing/Promotion/Consultancy	4
Securities	2
Shipping	5
Transportation	6
Wholesale trade	4
Total	**147**

Total outward redomiciled companies (2016 - 2018)

	Total redomiciled companies
2016	32
2017	34
2018	39

PASSPORTING

New notifications of passporting into Malta via the freedom of services (2018)	New notifications
European Credit Institutions	46
Payment Service	52
Electronic Money	44
European Insurance Undertakings	88
European Insurance Intermediaries	498
Investment Services	374
Regulated Markets	2
UCITS Schemes	272
UCITS Managers	4
EU AIFMS marketing in Malta	68
EU AIFMs managing AIFs or providing ancillary activities in Malta	26
EuVECAs marketing in Malta	28

New notifications of passporting outside Malta via the freedom of services (2018)	New notifications
Credit Institutions	5
Electronic Money	3
Payment Services	3
Investment Services	10
UCITS Schemes	5
UCITS Managers	0
Insurance Undertakings	34
Insurance Intermediaries	3
Maltese AIFMs managing AIFs or providing ancillary activities out Malta	11
Maltese AIFMS marketing into EU	7

3. New passporting into Malta via the freedom of establishment: Number of companies split by type.	New notifications
Credit Institutions	0
Electronic Money	2
Payment Services	3
Investment Services	3
UCITS Schemes	0
Insurance Undertakings	2
Insurance Intermediaries	0
Maltese AIFMs managing AIFs or providing ancillary activities out of Malta	0
Maltese AIFMS marketing into the EU	0

4. New Passporting out of Malta via the freedom of establishment: Number of companies split by type.	New notifications
Credit Institutions	0
Electronic Money	1
Payment Services	0
Investment Services	3
UCITS Schemes	0
Insurance Undertakings	3
Insurance Intermediaries	0
Maltese AIFMs managing AIFs or providing ancillary activities out of Malta	0
Maltese AIFMS marketing into the EU	0

APPENDIX VI: Issued and Surrendered Licences in 2018

NEW LICENCES

▶ BANKING

Financial Institutions

Licence issued to:

- Daily Payment International Limited
- Moneybase Limited

Extension of licence issued to:

- EPG Financial Services Limited to provide additional payment service activities and electronic money activities as per Activity 4 and Activity 10 of the First Schedule of the Financial Institutions Act

▶ INSURANCE

Insurance Undertakings

Licence issued to:

- Duiker Insurance Company Limited to carry on business of insurance under the Insurance Business Act in eight classes of business
- EUCARE Insurance PCC and NLCare Cell to carry on business of insurance in four classes
- Fortegra Europe Insurance Company Limited to carry on business of insurance in four classes of long-term business
- Mangrove Insurance Europe PCC Limited to carry on business of insurance in three classes
- Starr Europe Insurance Limited to carry on business of insurance under the Insurance Business Act in 16 classes of business

Extension of authorisation issued to:

- One Insurance Ltd to carry on business of reinsurance in five classes of the general business
- Bastion Insurance Company Limited to carry on business in two classes of the general business
- PSA Insurance Europe Limited to carry on business of insurance in one class of the general business
- PSA Insurance Limited to carry on business of insurance in two classes of the general business
- ArgoGlobal SE to carry on business of insurance and reinsurance in six classes of the general business

Revision of licence issued to:

- Propgen Insurance Limited to reflect a change in the classes of insurance business

Reinsurance Undertakings

Extension of authorisation issued to:

- Bavaria Reinsurance Malta Limited to carry on business of reinsurance in six classes of the direct business

Protected cells

Approval for:

- A23 as a cell of White Rock Insurance (Europe) PCC Limited to write business of insurance in one class of the general business
- A41 as a cell of White Rock Insurance (Europe) PCC Limited to write business of insurance in one class of the general business
- SVG Insurance Cell as a cell of Mangrove Insurance Europe PCC Limited to write business of insurance in three classes of the general business Insurance brokers

Insurance brokers

Enrolment in the Brokers List:

- National Insurance Brokers Limited

Insurance Intermediaries/ Agents List

Extension of authorisation issued to:

- PSA Insurance Solutions Limited to carry on business of insurance in two classes of general business

INVESTMENT SERVICES

Category 1

- Category 1A licence issued to MFM Fund Services Limited
- Category 1A licence issued to Scheuermann & CO. Limited
- Category 1B licence issued to JC Advisory & Capital Limited
- Category 1B licence issued to FIIG International Limited
- Category 1B licence issued to Goldberg Pan-European Wealth Consulting Ltd
- Category 1B licence issued to Fund Scouting & Advisory Ltd

Category 2

Licence issued to:

- 24 Capital Management Limited
- Atlington Capital Management Limited
- DIAMAN Partners Ltd
- Dolfin Asset Services Limited
- EMA Capital Limited
- Emerging Investment Partners Limited
- Huber & Partners Limited
- PeakBridge Partners Limited
- Spinoza Capital Management Limited

Revision of Investment Services Licence issued to:

- BOV Asset Management Limited to include the provision of Management Services to Retail Clients
- Bastion Wealth Limited to provide Management of Investments to Professional Clients
- Scotstone Fund Managers Ltd to reflect the extension of Licence to an Alternative Investment Fund Manager
- Standard Advisory Services Limited to provide Investment Advice and Management of Investments to Professional Clients
- Alpha Value Management Limited to reflect a change in the nature of authorisation
- SDP Capital Management (Malta) Limited to include Management of Investments for Professional Clients (including Collective Investment Schemes) in relation to all the instruments listed in the Company's licence
- Standard Advisory Services Limited to provide (i) Investment advice, (ii) Management of investments, (iii) Reception and transmission of order, and (iv) Execution of orders on behalf of other persons to Professional Clients (excluding collective investment schemes) and to Eligible Counterparties
- Zenith Finance Limited to reflect the change in the name of MFSP Financial Management Limited to Zenith Finance Limited
- Praude Asset Management Limited so as to act as an Alternative Investment Fund Manager in terms of the AIFM Directive, and accordingly, have dual authorization under both the AIFM and the UCITS Directive
- Altarius Asset Management Limited so as to act as an Alternative Investment Fund Manager in terms of the AIFM Directive

Category 3

Licence issued to:

- Nextmarkets Trading Limited

Revision of Investment Services Licence issued to:

- Binary Investments (Europe) Limited to provide its services in relation to financial contracts for differences ("CDFs") and rolling spot forex contracts to (a) Retail Clients (b) Professional Clients (including collective investment schemes) and (c) Eligible Counterparties
- Calamatta Cuschieri Investment Services Limited to deal on Own Account, in relation to 'options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yield, or other derivative instruments, financial indices or financial measures which may be settled physical or in cash' for Professional Clients and Eligible Counterparties

Category 4

- Category 4A licence issued to Dolfin Asset Services Limited

Investment Services – Conversion of licences

- Nexum SICAV plc was converted from self-managed to a third-party managed Professional Investor Fund
- Lutetia Capital Investment Advisors Ltd was converted from Company's Category 1a Investment Service Licence to a Category 1b Licence to provide Investment Advice to Professional Clients (including collective investment schemes) and Eligible Counterparties
- Crystal Finance Investments Limited was converted from Company's Category 3 Investment Service Licence to a Category 1b Licence to provide Reception and Transmission of Orders to Retail Clients
- Dolfin Asset Services Limited was converted from Company's Category 2 and 4A Investment Service Licence to a Category 3 and 4A Licence

▶ COLLECTIVE INVESTMENT SCHEMES

Professional Investor Funds targeting Qualifying Investors

Collective investment schemes licenses issued to:

- 21 Solstice Funds SICAV plc in respect of one sub-fund
- Altruid Hybrid Fund SICAV plc
- Amergeris Wealth Management SICAV plc in respect of one sub-fund
- Anchor Fund SICAV plc in respect of one sub-fund
- Arrow SICAV plc in respect of one sub-fund
- Art & Value SICAV plc in respect of one sub-fund
- Audentia Capital SICAV II plc in respect of two sub-funds
- Capaneo Investments SICAV plc in respect of one sub-fund
- Carma Capital Partners SICAV plc in respect of one sub-fund
- Cervus Global IC SICAV plc
- Chevaux 4 SICAV plc in respect of one sub-fund
- EIP Levant (SICAV) plc
- Heka Funds SICAV plc in respect of one sub-fund
- Himalaya SICAV plc in respect of one sub-fund
- Kylin Prime SICAV plc in respect of one sub-fund
- Magiston Funds SICAV plc in respect of two sub-funds
- Mercurios SICAV plc in respect of one sub-fund
- Meridon Funds SICAV plc in respect of one sub-fund
- Northern Cross SICAV plc in respect of one sub-fund
- Olma Next Fund IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited
- Pinnacle Absolute Return Global Alpha Fund IC SICAV plc as an incorporated cell of AKJ RICC Limited
- PMG Partners SICAV plc in respect of one sub-fund
- Senglea SICAV plc in respect of one sub-fund
- Strategica Funds SICAV plc in respect of one sub-fund
- Taliti Funds SICAV plc in respect of one sub-fund
- Top Selection Fund SICAV plc in respect of one sub-fund
- ZSB Systematic Equity Long-Short Fund IC SICAV plc as an incorporated cell of AKJ RICC Limited

Professional Investor Funds targeting Experiences Investors

Collective Investment Scheme licence issued to:

- Reitway Global Property Portfolio (MLT) SICAV plc

Alternative Investment Funds

Collective Investment Scheme licence issued to:

- AMAGIS Capital Funds SICAV plc in respect of one sub-fund
- Aquaeductus IC SICAV plc
- Audentia Capital AIF SICAV plc in respect of two sub-funds
- Bastion Wealth Strategies SICAV plc in respect of one sub-fund
- Bastion Wealth Strategies SICAV plc in respect of one sub-fund
- Bianco SICAV plc
- Comino Umbrella Fund SICAV plc in respect of one sub-fund
- CTH SICAV plc in respect of one sub-fund
- CTH SICAV plc in respect of one sub-fund
- ECDP Investment SICAV plc in respect of one sub-fund
- Global Garden SICAV plc in respect of one sub-fund
- J&T AIF Fund SICAV plc in respect of one sub-fund
- Narratus Capital IC SICAV plc as an incorporated cell of AKJ RICC Limited
- Northern Cross SICAV plc in respect of one sub-fund
- RohFund Global SICAV plc in respect of one sub-fund
- StarStruck Marine Capital IC SICAV plc as an incorporated cell of AKJ RICC Limited
- The Frilsham SICAV plc in respect of one sub-fund

Notified Alternative Investment Funds targeting Qualifying Investors

- Bergholt SICAV plc in respect of two sub-funds included in the List of Notified AIFs in terms of Regulation 6 of the Investment Services Act (List of Notified AIFs) Regulations 2016

Notified Alternative Investment Funds targeting Professional and Qualifying Investors

In terms of Regulation 6 of the Investment Services Act (List of Notified AIFs) Regulations 2016:

- 24 Capital Management SICAV plc in respect of two sub-funds included in the List of Notified AIFs
- Bergholt SICAV plc in respect of one sub-fund included in the List of Notified AIFs
- Cosmos SICAV plc ("the Scheme") in respect of two sub-funds included in the List of Notified AIFs
- COSMOS SICAV plc in respect of one sub-fund included in the List of Notified AIFs
- FCS Global AIFs Malta SICAV plc in respect of two sub-funds included in the List of Notified AIFs
- Italico Future Invest SICAV Plc in respect of one sub-fund included in the List of Notified AIFs
- JCI Private Equity SICAV plc ("the Scheme") in respect of one sub-fund included in the List of Notified AIFs
- MDC Astrolabe SICAV plc in respect of one sub-fund included in the List of Notified AIFs
- MDC Astrolabe SICAV plc in respect of two sub-funds included in the List of Notified AIFs

- OMP SICAV plc included in the List of Notified AIFs
- PeakBridge Ventures SICAV plc in respect of one sub-fund included in the List of Notified AIFs
- Prescient Asset Fund SICAV plc in respect of one sub-fund included in the List of Notified AIFs

UCITS

Collective Investment Scheme licence issued to:

- AMA UCITS SICAV plc in respect of one sub-fund
- AQA UCITS Fund SICAV plc in respect of one sub-fund
- AQA UCITS Funds SICAV plc in respect of three sub-funds
- Eiger SICAV plc in respect of three sub-funds
- Solid Future UCITS Funds SICAV plc in respect of two sub-funds

Collective Investment Schemes – Conversion of Licences

- Pentagon High Conviction Bond Fund IC SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund
- Avenue Fund IC SICAV was converted from Professional Investor Fund to Alternative Investment Fund
- Sunshine Fund (Malta) SICAV Limited in respect of the Alba Fund, The Intevo Industrial Technologies Value Opportunities Fund, The Blue Harmon Private Equity Fund and the Global Strategy East Investment Fund was converted from Professional Investor Fund to Alternative Investment Fund
- Clerkenwell SICAV plc in relation of one sub-fund so as to reflect the conversion of the Sub-Fund into a Sub-Fund targeting Qualifying Investors
- Metatron Capital SICAV plc in respect of the Metatron Long-Short Equity Fund, Metatron Long-Term Equity Fund, and the Metatron Global Macro Fund so as to reflect the conversion of the Scheme and its Sub-Funds from a Professional Investor Fund to an Alternative Investment Fund
- Altinum Fund SICAV plc in relation to one sub-fund so as to reflect the conversion of the Scheme and it's Sub-Fund from a Professional Investor Fund to an Alternative Investment Fund
- Core Strategy SICAV plc in relation to one sub-fund so as to reflect the conversion of the Scheme and it's Sub-Fund from a Professional Investor Fund to an Alternative Investment Fund
- Paragon SICAV plc in relation to two sub-funds so as to reflect the change in name of the Apollo Fund to Fist Mover Fund and the conversion of the Scheme and its Sub-Funds from a Professional Investor Fund to an Alternative Investment Fund
- Jacaranda Special Situations SICAV plc in relation to three sub-funds so as to reflect the conversion of the Scheme and its Sub-Funds from a Professional Investor Fund to an Alternative Investment Fund
- Alpha Value Fund SICAV plc in relation to one sub-fund so as to reflect the conversion of the Scheme and its SubFund from a Professional Investor Fund to an Alternative Investment Fund

▶ TRUSTEES AND FIDUCIARIES

Authorisation issued to:

- Papilio Holdings Limited to receive property under trusts and to act as a trustee or co-trustee and to provide other fiduciary services including acting as administrator of private foundations in terms of Article 43 of the Trusts and Trustees Act
- Rock Trustees Limited to receive property under trusts and to act as a trustee or co-trustee and to provide other fiduciary services including acting as administrator of private foundations in terms of Article 43 of the Trusts and Trustees Act
- Roman PTC Limited to act as a Trustee of a family trust in terms of Article 43B of the Trusts and Trustees Act

Extension of the authorisation issued to:

- Fides Fiduciary Limited to act as an administrator of private foundations
- Dominion Fiduciary Services (Malta) Limited to act as an administrator of private foundations

▶ PENSIONS

Custodians

Registration of:

- Swissquote Financial Services (Malta) Ltd to act as a Custodian under the Retirement Pensions Act

Occupational Retirement Schemes

Registration of:

- Mdina Master Trust Retirement Scheme as an Occupational Retirement Scheme set up in the form of a trust in terms of the Retirement Pensions Act
- Lifetime Occupational Pension Scheme as an Occupational Retirement Scheme in terms of Article 4 of the Retirement Pensions Act

Personal Retirement Schemes

Registration of:

- Azure Retirement Benefit Scheme as a Personal Retirement Scheme in terms of Article 4 of the Retirement Pensions Act
- The Ohio Pension Scheme as a personal retirement scheme in terms of Article 4 of the Retirement Pensions Act

Retirement Fund

Registration of:

- Kemmuna Retirement Benefit Fund SICAV plc as a Retirement Fund set up in the form of an investment company with variable share capital

COMPANY SERVICE PROVIDERS

Registration Certificate issued to:

- Action Consulting Limited
- AMLAtlantis Management Ltd
- CSB International Ltd
- Denitza Dimitrova
- EuroMed Risk Solutions Limited
- Fiduscorp Limited
- Fortia International Services Ltd
- Fortia Management Ltd
- Hamels (Malta) Limited
- Integra Corporate Services Limited
- Kylin Prime Corporate Services Limited
- Leo Services (Malta) Limited
- Quaestum Corporate Management Limited
- Reliance Management Ltd
- Robus Risk Services (Malta) Ltd
- Rosemont (Malta) Ltd
- Solon Director (Malta) Limited
- Stravi Management Limited
- United International Management (Malta) Limited
- Vista Marine & Aviation Limited
- Willis Towers Watson Management (Malta) Limited

Extension of the Registration Certificate issued to:

- Capricorn International Ltd to include arranging for another person to act as a director/ secretary of a company

SECURITISATION VEHICLES

Notified securitisation vehicles

Acknowledgement issued to:

- AddValue Securities SCC P.L.C
- Aenea Cell
- Axion Securitisation SCC plc
- Demetra Cell
- Innovatio Risk Solutions Limited
- N.E.M.O Securitisation SCC Ltd.
- Noku Cell
- Oceanwood Crown S.V. Limited
- Pomegranate SCC PLC
- Special Themes SCC Ltd

Cells

Acknowledgement issued to:

- AC Securities Cell 3 CCBA Crypto Currency Note
- BC Blockchain Asset Cell
- Cell Kout
- Dynamic Strategies Cell 2023
- Hera Cell
- Knight Capital Cell
- Rodnik Seven Protected Bond Cell
- Scytale Cell
- SI Projects ZERO Coupon AC Securities SCC Limited Cell Long Term Brazil Number One
- Standrevier Cell
- Transimmofinanz Cell
- Utah Relocation Specialists Cell
- Vision& Digital Asset Cell

SURRENDERED LICENCES

PENSIONS

Retirement Scheme Administrators

- Surrender of licence issued to Harbour Pensions Limited

INVESTMENT SERVICES

Category 1

Surrender of:

- Category 1A licence issued to Paladin Securities Ltd
- Category 1A licence issued to FMG Capital Ltd
- Category 1 licence issued to Hyde Park Investment International Limited
- Category 1 licence issued to W & J Coppini Investment Services Limited
- Category 1 licence issued to Conseils en Finances Limited

Category 2

Surrender of licence issued to:

- Oneka Asset Management Limited
- Theorema Advisors Ltd
- Skilling Group Limited
- Novia Management Ltd
- Novofina Limited
- Beside Asset Management Ltd
- Greenwich Dynamic Limited
- Tradexec (TEX) Limited
- Thybo Investment Management (Malta) Limited
- Somerset Management (Malta) Limited
- NordHedge Asset Management Limited
- Temporis Investment Management Limited

Cancellation of licence issued to:

- Numen Investments Limited
- Intrepid Capital Limited

Category 3

Surrender of licence issued to:

- Charts Investment Management Service Limited
- Domino Europe Limited

Category 4

Surrender of:

- Category 4B licence issued to Estera International Fund Services (Malta) Limited

COLLECTIVE INVESTMENT SCHEMES

Professional Investor Funds

Surrender of licence issued to:

- Alpha Value Fund SICAV plc in respect of one sub-fund
- Alphabetos Funds plc
- Audentia Capital SICAV plc in respect of seven sub-funds
- Blue Star Vision IC SICAV plc
- Catey Investments (SICAV) plc in respect of two sub-funds
- Cembra High Yield Fund SICAV p.l.c
- Ciel European SICAV plc
- Dalma Capital SICAV plc in respect of one sub-fund
- E2A Capital SICAV plc in respect of one sub-fund
- Foinavon SICAV plc in respect of one sub-fund
- GlobalCapital Funds SICAV plc in respect of one sub-fund
- Grosvenor Square Portfolio SICAV plc in respect of one sub-fund
- Hambermuc SICAV plc in respect of one sub-fund
- Himalaya SICAV plc in respect of nine sub-funds
- Infinity Capital SICAV plc in respect of one sub-fund
- J8 Umbrella Funds SICAV plc in respect of one sub-fund
- Lagonda Funds SICAV plc in respect of two sub-funds
- Magiston Funds SICAV plc in respect of one sub-fund
- Meridon Funds SICAV plc in respect of two sub-funds
- Mezzanine Capital Funds SICAV plc in respect of two sub-funds
- Monte Rosa SICAV plc in respect of two sub-funds

- NCC Funds SICAV plc in respect of one sub-fund
- Pilatus SICAV plc in respect of two sub-funds
- RPS Umbrella Fund (Malta) SICAV plc to its collective investment scheme licence, as well as the collective investment scheme licence granted in relation to its remaining sub-fund
- Selenium SICAV plc in respect of three sub-funds
- Strategica Funds SICAV plc in respect of three sub-funds
- TGA Funds SICAV plc in respect of one sub-fund
- The ARP Absolute Return Fund (SICAV) plc in respect of two sub-funds
- The Millennium Wave Fund (SICAV) plc
- Windrush Capital SICAV plc in respect of one sub-fund
- Woodman Funds SICAV plc in respect of one sub-fund

Alternative Investment Fund

Surrender of licence issued to:

- Bastion Wealth Strategies SICAV plc in respect of one sub-fund
- Comino II Umbrella Fund SICAV plc
- Comino III Umbrella Fund SICAV plc in respect of one sub-fund
- Elef Global Investments SICAV plc in respect of one sub-fund
- FMG Funds SICAV plc in respect of one sub-fund
- Novia Funds SICAV plc in respect of its only sub-fund
- Pentagon High Conviction Bond Fund IC SICAV plc

Notified Alternative Investment Fund

Surrender of licence issued to Global Series SICAV Scheme in respect of one sub-fund

UCITS

Surrender of licence issued to:

- 2.1 Alternative Investments SICAV plc in respect of its only sub-fund
- AQA UCITS Funds SICAV plc in respect of one sub-fund
- Libero International SICAV plc (“the Scheme”) in respect of one sub-fund
- Nobelium Fund SICAV plc in respect of two sub-funds
- Solid Future UCITS Funds SICAV plc in respect of one sub-fund
- Waterfront SICAV plc in respect of one sub-fund

Incorporated Cells

Surrender of licence issued to:

- Abel Absolute Return IC SICAV plc
- Kalliste Biotech Fund IC SICAV plc
- Oakland Strategy IC SICAV plc
- Wake World Equities Hedged IC Sicav p.l.c
- Wake World Equities IC SICAV p.l.c

▶ RECOGNISED FUND ADMINISTRATORS

Surrender of licence issued to:

- Equinoxe AIS Malta Limited
- Castlegate Fund Services Ltd

▶ TRUSTEES AND FIDUCIARIES

- Surrender of warrant issued to Camco (Nominee) Limited
- Cancellation of Authorisation issued to DF Corporate Services Limited

▶ COMPANY SERVICE PROVIDERS

Voluntarily cancellation of the registration issued to:

- St Julians Insurance Company Limited
- Cordium Malta Limited
- Meo Limited
- War Chest Corporate Services Limited

Cancellation of registration issued to:

- Geofocus Solutions Limited
- STM Malta Management Limited
- STM Malta Corporate Limited
- STM Malta Services Limited
- Omega Services Limited
- CSU Corporate Services Ltd

▶ BANKING

Financial Institutions

- Surrender of licence issued to Heinz-Glas Financial Services Malta Limited

APPENDIX VII: Administrative Measures and Penalties

During 2018, administrative measures, including penalties and directives, were imposed on licenced entities for various breaches of licence conditions as well as infringements under the Investment Services Act. These included the following cases:

APC Travel Bureau Ltd: on 24 July 2018, the Authority struck-off APC Travel Bureau Limited from the Tied Insurance Intermediaries List for failure to comply with the requirements of Article 38(1) of the Insurance Intermediaries Act (Cap 487) and the requirements of Insurance Intermediaries Rule 7 of 2007.

Ariadne Capital ECO2 VC Limited Partnership and Ariadne Capital Malta Ltd: the Authority removed the scheme and its four sub-funds from the list of Notified Alternative Investment Funds on 30 May 2018, after it was found subject to serious deficiencies in its governance structures and was not deemed to be in a position to operate. This followed the suspension of the licence of Ariadne Capital Malta Limited; the company failed to cooperate with the Authority in an open manner, nor supply requested information and documentation, while substantial governance breaches were identified, due to vacant positions.

Christopher Zahra: on 1 October 2018, the Authority struck-off Mr. Christopher Zahra from the Tied Insurance Intermediaries List for failure to comply with the requirements of paragraph 7 of Insurance Intermediaries Rule 7 of 2007 – Code of Insurance Selling Practice. Mr Zahra was enrolled to carry out tied insurance intermediaries' activities in the long-term business classes I and III for, and on behalf of, GlobalCapital Life Insurance Limited.

Confiance Malta Limited: the MFSA cancelled the Company's authorisation under article 43 of the Trusts and Trustees Act on 11 May 2018 for various breaches and imposed an administrative penalty of sixteen thousand Euros (€16,000). It also took regulatory action against Gareth O'Connell and David Mason, prohibiting them from holding any new directorship, senior management and/or any roles requiring the Authority's approval, in any licensed entity authorised by the Authority for a period of one (1) year from the date of notification of the regulatory action. The MFSA also obliged them to inform all entities licensed and/or otherwise supervised by the Authority, in which they were currently approved by the Authority to perform any role, function or service whatsoever, of the regulatory action taken by the MFSA against them.

Excellence Investment Umbrella SICAV plc: on 23 January 2018, the Authority directed the entity to refrain from making any further use of any of the services offered to EIUS, either directly or through sub-delegation, by its Investment Manager. In addition, the entity was instructed to have two Directors, at all times, acting jointly and on behalf of EIUS, as signatories in relation to EIUS' bank accounts. The entity was requested to take all the necessary steps for its dissolution and consequential winding up, in accordance with all applicable provisions at law, including the appointment of a liquidator. Until such time as a liquidator is appointed, they have to take charge of the safekeeping and management of EIUS' assets. The MFSA has taken this decision in terms of the powers granted to it under Article 15 of the Investment Services Act.

Ferratum Bank plc: on 28 March 2018, the Authority decided that the bank, between 18 July 2016 and 8 August 2016, breached the provisions of Article 17B. (1) and (2) of the Banking Act (Cap. 371 of the Laws of Malta), and the technical criteria on Governance Arrangements and Treatment of Risks specified in Annex 2B of Banking Rule on The Supervisory Review Process Of Credit Institutions Authorised Under The Banking Act. The Authority has imposed an administrative penalty of one hundred eighty-eight thousand, four hundred and forty-five Euros (€188,445) on the bank.

Intrepid Capital Limited: on 2 April 2018, the Authority cancelled the investment services licence granted to the Company, after it failed to address a number of post-licensing conditions prior to the commencement of business satisfactorily, was found deficient in establishing and maintaining a permanent effective compliance function, failed to observe the required Capital Resources Requirement and failed to submit the required Interim COREP Returns.

Mare Nostrum Melita Limited: the Authority directed the company, on 17 October 2018, to transfer its business to another person authorised to provide fiduciary services in terms of the Trusts and Trustees Act and to ensure that the safety and the integrity of the files were preserved. MFSA found the company to have fallen short of the standards expected of a person authorised in terms of the Trusts and Trustees Act.

Novium AG Investment Solutions: on 12 December 2018, the Authority issued a directive to Novium AG Investment Solutions, a company domiciled in Switzerland and supervised by the Swiss self-regulatory organisation, Verein zur Qualitätssicherung. Previously, the Company was the appointed Investment Manager of Novium Opportunity Umbrella SICAV plc, Excellence Investment Umbrella SICAV plc and Public Private Real

Estate Funds SICAV plc. The Authority hereby prohibited the Company from undertaking any investment services activity in terms of the Investment Services Act for a period of four (4) years applicable from 12 December 2018 and from operating under any exemption permitted in terms of the Investment Services Act (Exemptions) Regulations for a period of four (4) years applicable from 12 December 2018.

Novum Bank Limited: on 16 November 2018, the Authority decided to impose an administrative penalty of eighty thousand and five hundred Euros (€80,500) on Novum Bank Limited after it was found to be in breach of Article 11(2) of the Banking Act and of Regulation 10 of the European Passport Rights for Credit Institutions Regulations.

Portmann Capital Management Limited: on 22 August 2018, the company, holding a Category 2 investment services licence, was directed to cease the on-boarding of new clients and any outgoing transactions from all clients' accounts. The Authority had earlier imposed an administrative penalty of sixty-two thousand, eight hundred and ninety three Euros and seventy-three Cents (€62,893.73) on the company.

Pilatus Bank Limited: the Authority removed Mr Ali Sadr Hasheminejad from the position of director of Pilatus Bank Limited and from any other executive roles on 21 March 2018. The Authority also directed Mr Ali Sadr Hasheminejad to suspend the exercise of his voting rights as shareholder of the Bank and to refrain from exercising the legal and judicial representation of the Bank. The Bank was further directed not to allow any banking transactions, including withdrawals or deposits held with the Bank by the shareholder, members of the Board of Directors and Senior Management officials of the Bank, or any connected persons or related persons thereto, whether direct or indirect, and to obtain the MFSA's prior approval before effecting any movement of the Bank's assets. Soon after, the Authority appointed Mr Lawrence Connell as a 'Competent Person' to take charge of all the assets of Pilatus Bank Limited and assume control of the bank's banking and investment services business. The Authority has also directed the Bank not to dispose, liquidate, transfer or otherwise deal with clients' assets and monies. Further to the Authority's proposal to the European Central Bank (ECB) to withdraw the authorisation of Pilatus Bank as a credit institution, the ECB's Governing Council withdrew the authorisation of the bank with effect from 5 November 2018.

Satabank plc: on 4 July 2018, the Authority issued a decision to impose an administrative penalty of sixty thousand five hundred Euros (€60,500) on the bank in view of the breach of article 17B(1) of the Banking Act which requires every credit institution to put in place robust governance arrangements, as well as breaches of other rules set out in Annex 2B of Banking Rule 12 of 2014 entitled "The Supervisory Review Process" of Credit Institutions Authorised under the Banking Act 1994. On 15 October 2018, the Authority appointed Ernst and Young Ltd (EY) as a competent person to advise and monitor the Bank in the proper conduct of its business. This measure was taken to ensure good governance and controls and for the implementation of remedial measures in line with the MFSA's supervisory requirements as mandated by law. The bank continued to meet its financial prudential requirements. Soon after, on 20 October 2018, Satabank plc was directed to refrain, cease and desist from taking further deposits into accounts of its current customers, from accepting any new customers, from affecting or processing any withdrawal or outward transfers from any accounts held by the Bank and from effecting any transfer, sale, placement or any other movements of the Bank's or the customers' assets. Furthermore, it was requested to retain and preserve all records, data and documents relating to its business and its clients, and to ensure that all such records, data and documents were kept safe and were accessible at any time to the Authority and/or to any person appointed by the Authority in terms of law. The Authority also upgraded the appointment of the Competent Person (Ernst & Young) such that it was tasked to take charge of the assets of the Bank for the purpose of safeguarding the interests of depositors and assume control of the Bank's business and to carry out such functions as the Authority may direct.

Full details of administrative measures, including penalties and directives imposed on licence holders during 2018 for breaches of licence conditions as well as infringements under the Investment Services Act and Listing Rules are available on the MFSA website https://www.mfsa.com.mt/firms/regulated-firms/financial-institutions/administrative-measures-and-penalties/

Listing Authority

The Authority has also issued administrative measures and penalties relating to breaches of the Listing Rules: On 19th April 2018, the MFSA imposed a penalty of €60,000 on **Pefaco International plc** in terms of Article 19 of the Financial Markets Act. This penalty has been issued following the failure to publish Annual and Interim Financial Reports within the time-frames stipulated in the Listing Rules. On the same day, Pefaco international plc has also been delisted from the Malta Stock Exchange, months after its trading was suspended, in terms of Article 17(1)(a) of the Financial Markets Act and Listing Rule 1.21.

On 25th October 2018, an administrative penalty of €27,000 was imposed on **6PM Holdings plc** in terms of Article 19 and Article 19A of the Financial Markets Act. This penalty has been issued following the failure to publish Annual and Interim Financial Reports within the time-frames stipulated in the Listing Rules.

Appendix VIII - Memoranda of Understanding in force

ENTITY	SCOPE OF AGREEMENT
Bilateral MoUs with Foreign Regulators	
Australian Prudential Regulation Authority	Banking and Insurance
Austrian Financial Market Authority	Credit Institutions
Belgian Banking and Finance Insurance Commission	Banking
Bermuda Monetary Authority	Insurance, Credit Institutions and Trusts
Cayman Islands Monetary Authority	Credit Institutions, Insurance, Securities and Trusts
China Banking Regulatory Commission	Banking
China Securities Regulatory Commission	Securities
Cyprus Central Bank	Credit Institutions
German Federal Financial Supervisory Authority	Banking, Securities and Insurance (Primarily Banking)
Gibraltar Financial Services Commission	Banking, Securities and Insurance.
Guernsey Financial Services Commission	Banking, Investment Services, Insurance and Fiduciary Services
Isle of Man Financial Services Commission	Securities and Banking
Isle of Man Insurance and Pensions Authority	Mutual Assistance and exchange of information
Jersey Financial Services Commission	Mutual Assistance and exchange of information
Mauritius Financial Services Commission	Securities, Insurance and Pensions
Netherlands Central Bank	Banking
Portugal Central Bank	Credit Institutions
Portugal Securities Market Commission	Securities
Qatar Financial Centre Regulatory Authority	Banking, Financial and Insurance related business
Slovakia National Bank	Banking, Insurance and Securities
South Africa Financial Services Board	Securities, Insurance and Pension Funds
Turkey Banking Regulation and Supervision Agency	Banking
Turkey Capital Markets Board	Securities
U.A.E. Dubai Financial Services Authority	Securities, Credit Institutions, Insurance and Trusts
U.A.E. Abu Dhabi Global Market Financials Services Regulatory Authority	Banking, Securities and Insurance
UK Financial Conduct Authority	Banking, Insurance and Investment Services
UK Financial Conduct Authority	Securities
U.S.A. Nebraska Department of Insurance	Insurance
Ukraine National Securities and Stock Markets Commission	Securities and Markets
Vatican Financial Information Authority	Financial Institutions
Vietnam National Financial Supervisory Commission	Banking, Securities and Insurance

Bilateral MoU's with Local Authorities	
Central Bank of Malta	Payment and Securities settlements systems, Exchange of Information in the Fields of Financial Services, and on the Joint Financial Stability Board
Financial Intelligence Analysis Unit (FIAU)	Cooperation, rendering of mutual assistance and exchange of information in the field of AML/CFT compliance supervision
Office of Fair Competition	Mutual Assistance and exchange of information
Multilateral MoUs and Protocols	
EIOPA	Insurance and occupational Pensions
ESMA	Securities
Financial Supervisory Authorities, Central Banks and Finance Ministries of the EU	Cross-Border Financial Stability
International Association of Insurance Supervisors (IAIS)	Exchange of Information in insurance regulatory and supervisory matters
IOSCO	Securities
Ministry of Finance, the Economy and Investment and Central Bank of Malta	Co-operation in the management of financial crisis situations
Agreements by means of Letters with Foreign Regulators	
Italian CONSOB	Securities
Swiss Financial Market Supervisory Authority (FINMA)	Banking and Securities

Appendix VIII - Pending appeals before the Financial Services Tribunal

1. Christopher J. Pace v MFSA (Case Ref: FST3/09)
2. Nicholas Portelli v MFSA (Case Ref: FST04/09)
3. James Blake v MFSA (Case Ref: FST5/09)
4. European Insurance Group Ltd v MFSA (Case Ref: FST01/10)
5. MFSP Financial Management Ltd v MFSA (Case Ref: FST04/12)
6. All Invest Company Limited v MFSA (Case Ref: FST 1/13)
7. All Invest Company Limited and Wallace Falzon v MFSA (Case Ref: FST 2/13)
8. Hermione Bugeja v MFSA (Case Ref: FST 1/14)
9. Novium AG v MFSA (Case Ref: FST2/15)
10. Alan Kentish v MFSA (Case Ref: FST3/15)
11. JFP Investments SICAV plc v MFSA (Case Ref: FST1/16)
12. FX-CAM Consulting and Advertisement Ltd (formerly Sensus Capital Markets Ltd) v MFSA (Case Ref: FST2/16)
13. St Publius Corporate Services Ltd v MFSA (Case Ref: FST3/16)
14. Heikki Niemela, Mika Lehto, Nemea plc, Nevestor SA, Nemea Bank plc v MFSA (Case Ref: FST4/16)
15. Hollingsworth International Financial Services Ltd v MFSA (Case Ref: FST7/16)
16. Futura Investment Management Ltd v MFSA (Case Ref: FST8/16)
17. Hollingsworth International Financial Services Ltd v MFSA (Case Ref: FST9/16)
18. Heikki Niemela, Mika Lehto, Nemea plc, Nevestor SA, Nemea Bank plc v MFSA (Case Ref: FST10/16)
19. Niemela, Lehto, Nemea plc, Nevestor SA, Nemea Bank plc v MFSA (Case Ref: FST 1/17)
20. Victoria Insurance Agency Ltd (FST 2/17)
21. Confiance Malta Ltd v MFSA (Case Ref: FST 4/17)
22. Pilatus Holding Limited v MFSA (Case Ref: FST 02/18)
23. Mr. Johannes Helmut Michael Bauer, Dr. Claude-Anne Sant Fournier, Mr. Hamidreza Ghanbari, Mr. Robert L.Klingensmith, Mr. Luis Felipe Rivera and Mr. Mustafa Cetinel in their personal capacities as directors of Pilatus Bank plc and for and on behalf of Pilatus Bank plc v MFSA (Case Ref: FST 03/18)
24. Portmann Capital Management Ltd v MFSA (Case Ref: FST 04/18)
25. Portmann Capital Management Ltd v MFSA (Case Ref: FST05/18)
26. Signia Holding Limited & Satabank plc v MFSA (Case Ref: FST06/18)
27. Softquo Holding Ltd, Golden Bet Ltd, Virtual Gaming Technologies, G-Virtuals Ltd v MFSA (Case Ref: FST07/18)
28. The Multi Group Limited, Multi Brand Gaming Ltd, Multi Warehouse Limited, Lotto Warehouse Limited, Multilotto UK Limited, Wasp Media Limited, Multi Pay N.V. and Round Spot Services Limited vs MFSA (Case Ref: FST08/18)

PENDING COURT CASES AS AT 31 DECEMBER 2018

Court of Appeal (Civil, Inferior):

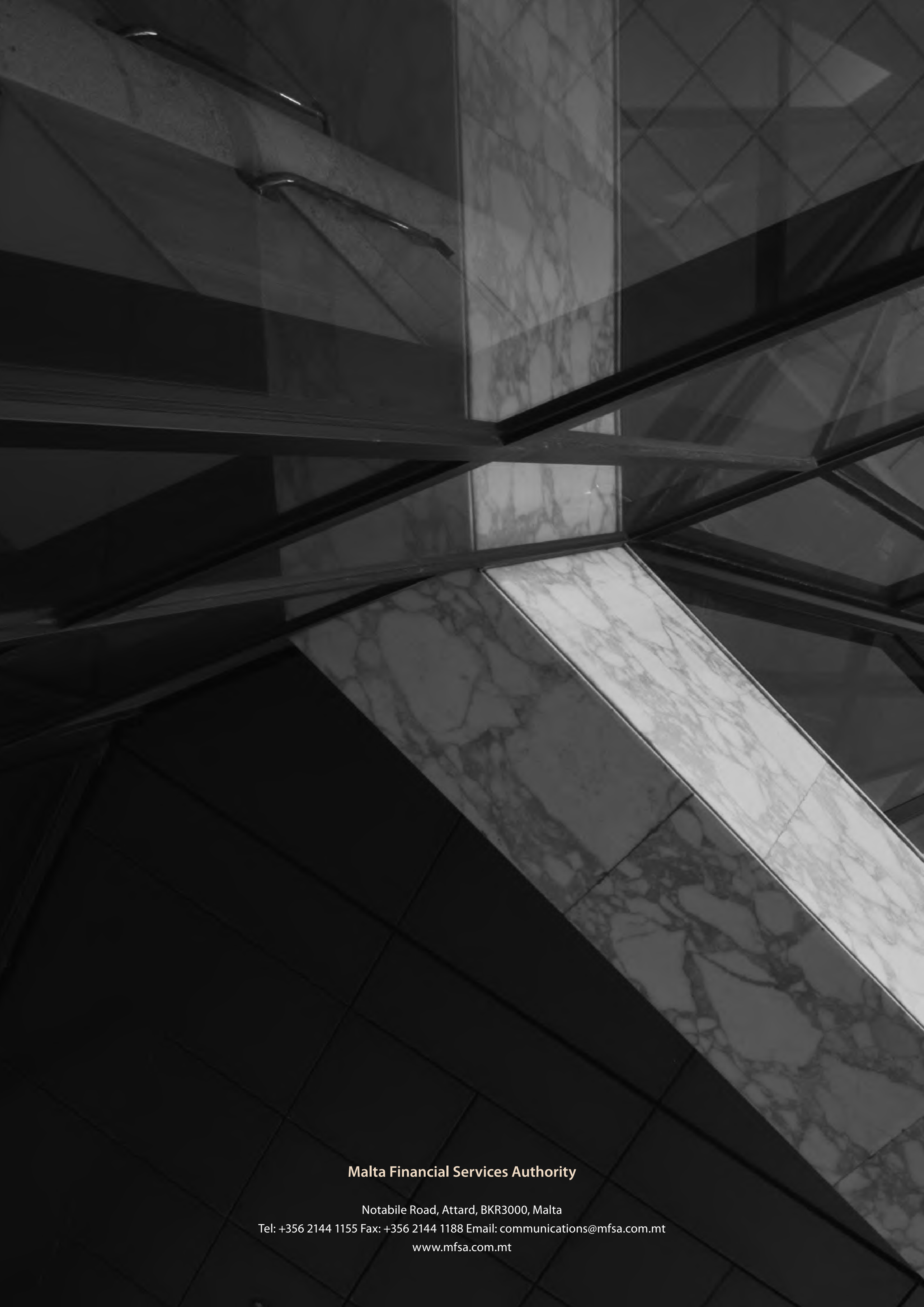
29. Portmann Capital Management Ltd v FIAU & MFSA (95/18)

Court of Appeal (Civil, Superior):

30. Martone Dottor Michele Pro Et Noe v Gatt Raymond, MFSA (1099/2006/1)

Civil Court, First Hall:

31. All Invest Company Ltd v X (888/2013 JZM)
32. Amedeo Barletta noe vs MFSA (276/2012 JRM)
33. Maltese Cross Financial Services Ltd v X (204/2015 JZM)
34. All Invest Company Ltd v X et (894/2017 MCH)
35. Av Mark Refalo noe v Brian Tonna (827/17 JZM)
36. Pilatus Holding Ltd et v MFSA (936/2018)
37. Juanafil Finance Ltd v Satabank, EY, MFSA (1283/18 MH)



Malta Financial Services Authority

Notabile Road, Attard, BKR3000, Malta
Tel: +356 2144 1155 Fax: +356 2144 1188 Email: communications@mfsa.com.mt
www.mfsa.com.mt