

# ANNUAL REPORT 2015



**MFSA**

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MALTA FINANCIAL SERVICES AUTHORITY



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# CHAIRMAN'S STATEMENT



The world economy stumbled in 2015 but it was a different story in Malta where the economy experienced impressive growth, with financial services playing an important role in that. The Malta Financial Services Authority ensured good governance but also underwent major internal restructuring to make it future proof. This was a year in which the MFSA continued to strengthen the regulatory and supervisory regime. It was a year of robustness and results.

The Eurozone economy picked up in 2015. Growth was a modest 1.5% yet this was its strongest performance since 2011. The Eurozone result came against the backdrop of a slowdown in China and weak performances in Russia and Brazil. The ricochet effect slowed economic growth across the emerging economies so the story of the world economy was one of weak aggregate demand and falling commodity prices with increased financial market volatility.

Eurozone countries are contending with issues of fiscal and public debt and high unemployment but the trajectory is for continued growth in 2016, supported by domestic demand, suppressed oil prices and an accommodative monetary policy.

The inflation rate in the Eurozone has fluctuated close to zero and downside risks persist. The European Central Bank decided bold measures were needed to get the inflation rate closer to its target of 2.0% in the medium term. These included a cut in the deposit rate by 10 basis points to minus 0.30% and an extension of its asset purchase programme by at least six months.

By comparison, growth figures for Malta were impressive. In 2015, Malta's economy expanded by a robust 6.3% over 2014 in real terms, a multi-year high rate. Malta's remarkable growth rates have been underpinned by booming investment which expanded significantly on the back of a number of large infrastructural projects and government's efforts to modernise the economy. Growth is expected to remain robust in 2016 with consumer income boosted by personal income tax cuts and rising government spending.

The financial services industry plays a big part in the economic development of Malta. 90% of Foreign Direct Investment is in this sector, which has been expanding by about 25% a year in recent times. The sector makes up 8.5% of the GDP of Malta and is a major player in creating jobs.

The World Economic Forum Competitiveness Report 2015-2016 ranks Malta highly. It places Malta 15th out of 148 for soundness of the banking system; 20th for strength of auditing and reporting standards; 25th for the regulation of stock exchanges.

The best course for Malta is to not only maintain its reputation but to enhance it. During 2015, the Authority continued to strengthen the regulatory and supervisory regime. The financial crisis had revealed serious shortcomings in the tools available to authorities for preventing or addressing systemic bank failures, hence the Bank Recovery and Resolution Directive (BRRD), creating the Resolution Authority, the Resolution Committee and the Resolution Unit within the MFSA, came into force in July 2015 and the Regulations in September 2015.

There is no doubt that that prudent regulation, which promotes stable and fair markets, also drives consumer confidence. On the international stage, there has been a drive to develop common principles on consumer protection in the field of financial services. An initiative taken by the G20 in 2011 called on the OECD and other international institutions to take action. At the MFSA a major internal restructuring exercise took place in 2015 to reflect these international priorities. A Conduct Supervisory Unit, dedicated solely to the proper conduct of business in financial services, was set up. Its task is to ensure that customers are treated fairly across all financial products and services. This new Unit's remit includes identifying emerging risks, so as to prevent consumer detriment rather than dealing with the consequences. These changes are complemented by the setting up of the Financial Services Arbiter by the Government.

The Insurance and Reinsurance Solvency II directive was transposed after a two-year preparation period. The MFSA worked with insurance and reinsurance undertakings as they adapted to its requirements. This was a programme of engagement and assessment.

A great deal of other activity has been taking place in relation to regulation and supervision. There is still a lot of ongoing work, particularly by the Banking Unit on CRD IV/V and by the Securities and Markets Unit on the implementation of MiFID II, the Transparency Directive and UCITS V.

I thank the Board of Governors and the staff for their dedication to the development of the Authority. The financial services industry has been strengthened further and is performing strongly, which is a record to be proud of.

2016 promises to be another eventful year, especially as preparations take place for the first ever Maltese Presidency of the European Union Council, in the first half of 2017. We are looking forward with confidence.



**J V Bannister**

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# THE AUTHORITY

## BOARD OF GOVERNORS



*Front row left to right: Dr. John Consiglio, Prof. Joe V. Bannister, Mr Herbert Zammit Laferla*

*Back row left to right: Dr Joseph Brincat, Dr. Vanessa Bonnici, Mr Frans Camilleri, Ms Lauren Ellul, Prof. Josef Bonnici*

**Chairman**    **Prof. Joe V. Bannister** B.Sc, M.Sc, D.Phil (Oxon)

**Members**    **Prof. Josef Bonnici** B.A. (Hons.) Econ, M.A., Ph.D. (Simon Fraser)

**Dr Joseph Brincat** B.A.(Lond), B.Sc.(Econ) Lond, LL.D.

**Mr Frans Camilleri** DSS (Oxon), Graduate Diploma (UEA), MA (UAE)

**Dr John Consiglio** Ph.D., M.Phil (Eur Studs.), MBA(Wales.), DipFS., Dip Law & Adm.,  
Dip Bus. Law & Actcy., FCIB.

**Ms Lauren Ellul** B.Accty (Hons), Executive M.B.A.(Edinburgh & ENPC), F.I.A., C.P.A.

**Mr Herbert Zammit Laferla** AIFS

**Secretary**    **Dr David Fabri** LL.D (Up to 15 December 2015)

**Acting Secretary**    **Dr Vanessa Bonnici** B.A. M.A. LL.D.

The Board of Governors is also the Listing Authority for the purpose of the Financial Markets Act and the Resolution Authority for the purpose of Directive 2014/59/EU.

## SUPERVISORY COUNCIL

- Chairperson** **Ms Marianne Scicluna** B.A (Hons.) Bnkg. & Finance, M.Sc (Fin. Reg. & Compliance Mngt.)  
Director General
- Members**
- Dr Marisa Attard** LL.D, ACII  
Director – Insurance and Pensions Supervision Unit
- Dr Christopher Buttigieg** B.Com. (Melit.), B. Accty. (Hons) (Melit.), M.A. Fin. Ser (Melit.), M.A. EU Law and Soc (Sussex), D.Phil Law Studies (Sussex), C.P.A.  
Director – Securities and Markets Supervision Unit
- Mr Karol Gabarretta** B.A (Hons.) Econ., M.A (Fin. Serv.)  
Director – Banking Supervision Unit
- Ms Angele Galea St John** BA (Hons) Accty, MSc (Risk Mgmt), CPA  
Director - Authorisation Unit
- Dr Michelle Mizzi Buontempo** LL.D, M.A (Fin. Serv.)  
Director – Conduct Supervisory Unit
- Dr Michael Xuereb** LL.D, M.A (Fin. Serv.)  
Director - Regulatory Development Unit
- Secretary** **Mr Mario Felice** B. Com. (Hons.) Econ. - (January-June 2015)
- Ms Erika Farrugia** B.Sc. (Business & Computing), Executive MBA (University of Malta), ACII  
ACCA - (July-December 2015)

## BOARD OF MANAGEMENT AND RESOURCES

- Chairman** **Mr Joseph Demanuele** FCCA, FIA, CPA  
Chief Operations Officer
- Members**
- Mr Neville Agius** BSc. (Hons.), MSc.  
Head - Information Systems, Information and Communication Technologies Unit
- Mr Robert Aquilina** Dip. Public Administration, MBA (Executive)  
Head - Communications Unit
- Mr George Spiteri** Dip. Social Studies (Industrial Relations), MSc. in Training and HR Mgt. (University of Leicester)  
Director - Human Resources Development Unit
- Ms Anne Marie Tabone** B.A Hons, Accty. FIA, CPA  
Director - Finance & Risk Management Unit
- Mr Reuben Vella** BSc. (Hons.), MSc.  
Head - Systems Infrastructure, Information and Communication Technologies Unit
- Mr Charles Zammit** DBA, FCMI, FAIA. (up to March 2015)  
Director – Administration Unit
- Secretary** **Mr Colin McElhatton** B.Sc (Hons), IS & Management (London)

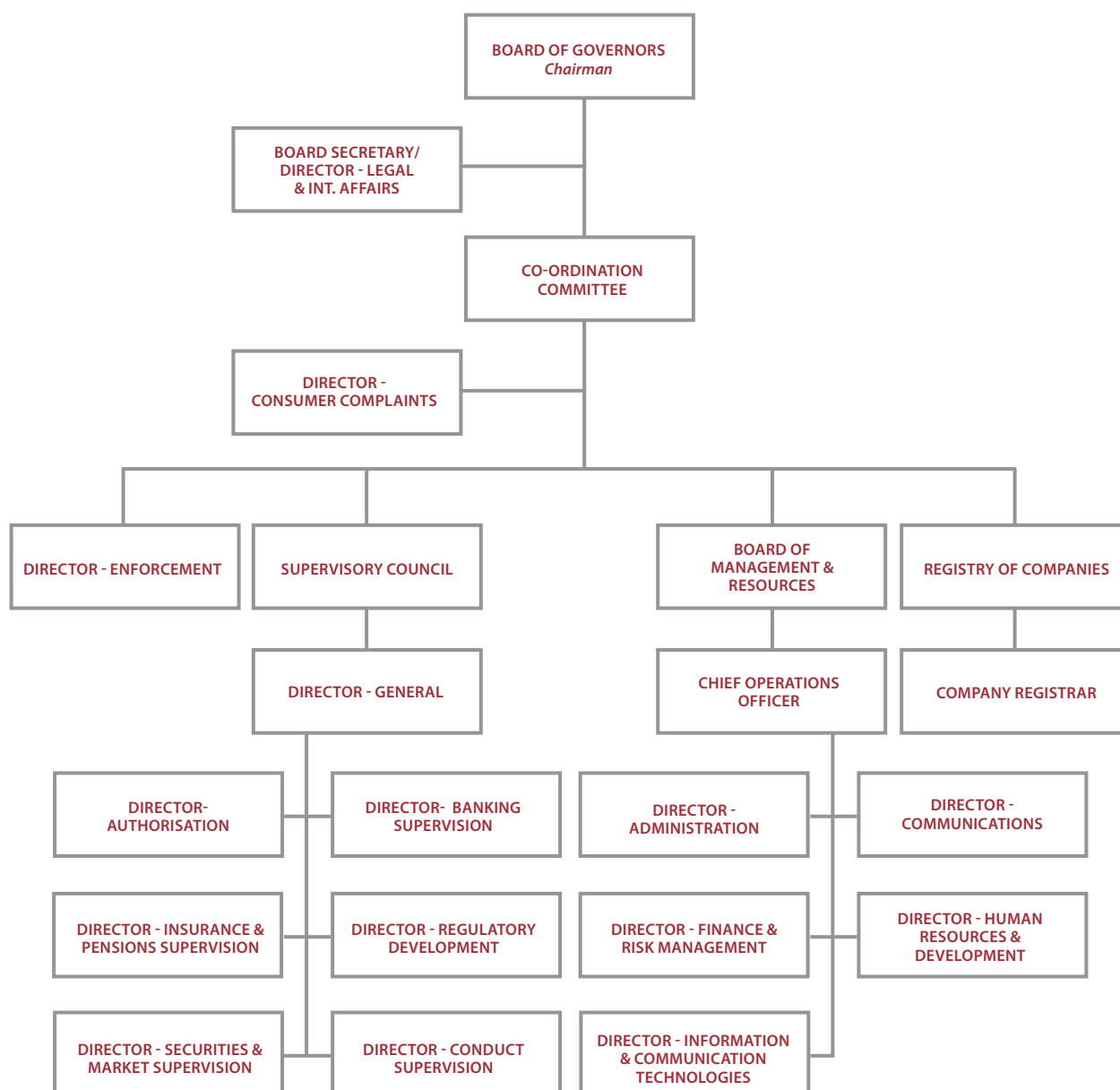


## ORGANISATION

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. The MFSA also incorporates the Registry of Companies and is responsible for the admissibility to listing on recognised investment exchanges.

The MFSA is an autonomous body, constituted by the Malta Financial Services Authority Act. It reports annually to Parliament. The main organs are the Board of Governors appointed by the Prime Minister, the Supervisory Council and the Board of Management and Resources. A Co-ordination Committee links all three.

### *MFSA Organisation Chart*



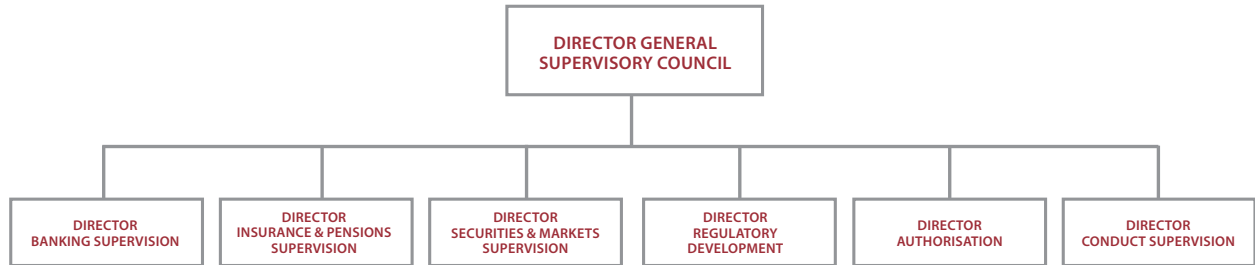
The Legal and International Affairs Office is one of the statutory organs of the Authority and some of its primary functions are set out in the Act. These include the provision of legal advice and assistance to all the organs of the Authority. In addition to serving as Secretary to the Board of Governors and the Co-ordination Committee and providing assistance to the various Units within the Authority, the Office is also responsible for co-ordinating all legal international affairs.

Composition of the Co-ordination Committee

CHAIRMAN - Board of Governors			SECRETARY BOARD OF GOVERNORS / DIRECTOR LEGAL & INTERNATIONAL AFFAIRS
DIRECTOR GENERAL/ SUPERVISORY COUNCIL	REGISTRAR OF COMPANIES	CHIEF OPERATIONS OFFICER BOARD OF MANAGEMENT & RESOURCES	DIRECTOR ENFORCEMENT

The Supervisory Council is composed of the Authorisation Unit, the Regulatory Development Unit, the Conduct Supervision Unit, the Banking Supervision Unit, the Securities and Markets Supervision Unit and the Insurance and Pensions Supervision Unit.

The Supervisory Council



**Banking Supervision Unit:**

Responsible for the supervision of credit and financial institutions.

**Conduct Supervision Unit:**

Responsible for securing appropriate consumer protection in financial services through a supervisory regime, seeking to address potential or emerging risks for financial services consumers. Also responsible for the supervision of trustees, fiduciaries and company service providers.

**Insurance and Pensions Supervision Unit:**

Responsible for the supervision of insurance companies, insurance intermediaries, pension schemes, pension funds and pension service providers.

**Securities and Markets Supervision Unit:**

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.

**Regulatory Development Unit:**

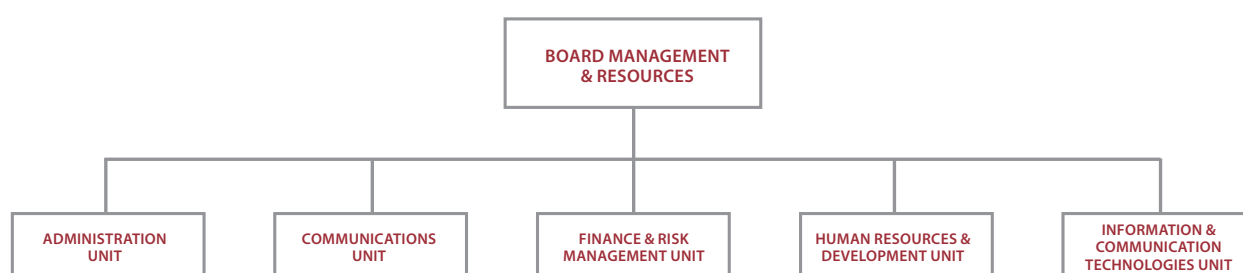
Responsible for research and development and the implementation of cross-sectoral policies, as well as financial stability and macro-prudential supervisory issues.

**Authorisation Unit:**

Responsible for licensing and recognition of all financial services entities.

## MANAGEMENT UNITS:

### *Composition of the Board of Management & Resources*

**Administration Unit:**

The Unit was previously part of the Finance & Administration Unit but now focuses purely on the administrative function of the Authority. Day-to-day functions include upkeep and maintenance of premises, transport and logistics and security within premises.

**Communications Unit:**

The Unit's remit encompasses information and public relations functions together with the provision of logistical support for events. It is also responsible for the preparation of corporate publications and for the development and maintenance of the Authority's internet and intranet sites.

**Finance & Risk Management Unit:**

The unit oversees and manages the finances of the Authority and is a support unit for all regulatory and operational units. It prepares budgets and produces monthly management information. It sets, monitors and improves the operation of the MFSA's financial control framework ensuring compliance with policies and controls. The team is responsible for the collection of fees, payments to suppliers, computation of payroll, together with timely submission of financial statistics and information required by the Board of Governors, the Ministry of Finance and other Government bodies. It co-ordinates with the Statutory Auditors, the annual audit of the Authority's Financial Statements drawn up in compliance with International Financial Reporting Standards. As part of the recent restructuring of this Unit, the functions also include responsibility for the development of a risk management framework for the organisation.

**Human Resources and Development Unit:**

The Unit is responsible for employee welfare and personnel development through training and other initiatives. The Unit 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 bodies and academic institutions.

**Information and Communication Technologies Unit:**

The Unit provides operational support to the other units and is responsible for managing the Authority's resources, efficiently supporting the overall business strategy. This is achieved with the provision of reliable ICT services, systems and technology, enabling the MFSA to maximise the value of its information and knowledge while working with a mixture of in-house and outsourced technology suppliers. The Unit has recently been assigned a new remit to provide information security analysis to the Regulatory Units.

**The Enforcement Unit**

The Enforcement Unit is responsible for reviewing the actions and where necessary conducting investigations of licence holders who have, or are suspected of having committed serious compliance failures, serious misconduct, market abuse, breach of listing rules or other serious breaches of the law. Furthermore, it investigates the actions of persons carrying on financial services activities without having the necessary licence or authorisation.

**Registry of Companies**

The MFSA also houses 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 and is entrusted with ensuring compliance with the provisions of the Act.

**Listing Committees**

The Listing Committees are appointed by the Board of Governors in terms of Article 14 of the Financial Markets Act. 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 Mr David Pullicino and has as members Ms Lauren Ellul, Mr Saviour Briffa and Dr Andre Camilleri; it mainly processes applications for the admissibility to the Malta Stock Exchange (MSE). The Listing Committee for the wholesale securities market is composed of Mr Saviour Briffa, Mr Frans Camilleri and Ms Marianne Scicluna and mainly processes applications for admissibility to the European Wholesale Securities Market (EWSM)

### **Consumer Complaints Unit**

The Consumer Complaints Unit investigates complaints from private consumers arising out of any financial services transaction. The Consumer Complaints Manager is directly responsible to the Board but, where appropriate, cases may be referred to the Supervisory Council. The Unit is also responsible for consumer awareness and education.

### **The Education Consultative Council (ECC)**

The terms of reference of the ECC include co-ordination and information sharing 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 provides input to the Authority on matters related to training and career development within the sector and co-ordinates initiatives to tackle skills gaps.

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

### **Corporate Social Responsibility**

During 2015, the Authority provided financial support to the *Fondazzjoni Patrimonju Malti*, the Office of The President and the Marigold Foundation.



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# REGULATORY & MARKET OVERVIEW

2015 was a year in which the world's major economies were influenced by unfavourable factors, including weak capital flows and passive global trade, associated with economic slowdowns in emerging economies. Uncertain economic prospects sent volatilities rippling across international markets. Renewed geopolitical tensions dampened consumer and business sentiment. The year was also marked by a substantial drop in oil prices which persisted due to excess supply of oil and weak expectations in global demand. This had a favourable influence on households' consumption and real incomes for economies dependent on oil-imports, but raised economic sustainability concerns for commodity-exporting countries.

Moderate economic growth was registered in the majority of EU economies but was accompanied by an economic drag caused by weaknesses in the external environment. This led to strains on investment and economic outlook. Domestic demand continued to be a main driver for growth in EU economies, alongside low energy prices and a favourable euro exchange rate for exports to non-euro countries. Impediments to the sustainability of economic recovery persisted with unemployment, although improving, still remaining high and divergent across member states. Fiscal policy in the euro area took a more supportive stance towards growth during the year while still pursuing general government debt consolidation.

The rate of inflation persisted close to zero throughout the year, inducing the ECB to continue with monetary policy easing by extending its asset-purchase programme. The ECB deposit rate was cut, taking it further into negative territory in an attempt to keep financing costs low and reduce financial fragmentation across the Euro zone. Divergence in monetary policy remained apparent across major central banks, with the ECB and Bank of Japan engaging in accommodative monetary policies, as the US Federal Reserve raised the federal fund target rate for the first time since the crisis.

Malta's economy outperformed other EU Member States with respect to economic growth, with domestic demand being the main driver. Given Malta's economic openness to trading partners outside the EU, the euro exchange rate had a positive influence on trade. Despite the increased dependence on imports triggered by higher private consumption, a current account surplus was still registered. The labour market continued to strengthen, registering record-low unemployment by the end of the year. Relative to the euro area inflation in Malta stood more in line with the ECB's monetary policy target mainly due to Malta's consistent and strong economic growth. Fiscal consolidation persisted during the year with general government deficit decreasing further in tandem with a projected fall in gross government debt to GDP ratio.

Malta's financial services system continued to expand in terms of size, reputation and attractiveness, backed by a resilient regulatory framework, prudential supervision, consumer protection, and strong money laundering prevention mechanisms. The robustness of the sector is reflected in healthy capital and liquidity levels held by banks, the continued registration of funds and investment vehicles and a growing insurance industry within a comprehensive and strengthened regulatory environment. New licences, issued during the year, were registered most notably in the payment services, electronic money and alternative investment management sectors. Growth in the sector also expanded in terms of employment opportunities both within the direct financial intermediation segment and other related professionals' services activities.

## BANKING

### General Overview

The Banking sector in Malta remained adequately capitalised, retaining healthy liquidity, solvency and profitability levels in compliance with banking legislative frameworks and prudent domestic banking models. The World Economic Forum's Global Competitive Index 2015-2016 again accredited Malta with a high ranking with respect to bank soundness.

### The Banking Sector

The Maltese Banking sector consists of 28 credit institutions authorised to carry on banking activities in terms of the Banking Act in addition to a branch of an EU credit institution which conducts business in terms of the European Passporting Rights for Credit Institutions Regulations, 2004.

There were 130 bank offices and branches spread across Malta in 2015 and 211 Automated Teller Machines (ATMs) providing a range of self-service banking transactions. In addition, there were almost 14,000 Point of Sale (POS) terminals nationwide and 870,000 payment cards indicating a growing customer preference for using non-cash payment instruments.

**Table 1: Bank offices, ATMs, POS terminals, and payment cards in Malta (2013 – 2015)**

	2013	2014	2015
<b>Bank Offices and branches</b>	130	135	130
<b>ATMs</b>	214	206	211
<b>POS terminals</b>	13,561	13,620	13,950
<b>Payment cards</b>	817,490	847,190	869,334

Sources: ECB, Malta Financial Services Authority

For analytical purposes, the Maltese banking sector is broken down into three categories, namely: 'core domestic banks', 'non-core domestic banks' and 'other banks'.<sup>01</sup> 'Core domestic banks' represents credit institutions that have a strong connection with the domestic economy. These institutions also account for a wide national branch network, provide a full range of banking services and are core providers of credit and depository services in Malta.<sup>02</sup> 'Non-core domestic banks' are institutions which play a smaller role within the domestic economy, since they provide limited operations and banking services to residents.<sup>03</sup> 'Other banks' represents credit institutions which have virtually no connections with the domestic economy.<sup>04</sup> Unless otherwise stated, the aggregate banking sector consists of all credit institutions authorised by the Authority and a branch of an EU credit institution which operates in Malta through the freedom of establishment.

<sup>01</sup> Methodology on the classification of banks can be found in the Financial Stability Report (2014) published by the Central Bank of Malta.

<sup>02</sup> The 'core domestic banks' are the following credit institutions: APS Bank Limited, Banif Bank (Malta) plc, Bank of Valletta plc, HSBC Bank Malta plc, Lombard Bank Malta plc, Mediterranean Bank plc and Mediterranean Corporate Bank Limited.

<sup>03</sup> The 'non-core domestic banks' category consists of the following credit institutions: BAWAG Malta Bank Limited, FCM Bank Limited, FIMBank plc, IIG Bank (Malta) Limited, Izola Bank plc and Sparkasse Bank Malta plc.

<sup>04</sup> '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, Deutsche Bank (Malta) Limited, ECCM Bank plc, Ferratum Bank Limited, NBG Bank Malta Limited, Nemea Bank Limited, Pilatus Bank Limited, Saadgroup Bank Europe Limited, Sata Bank plc, Türkiye Garanti Bankası AS, Novum Bank Limited, and Yapi Kredi Bank Malta.



*Mediterranean Bank plc and Mediterranean Corporate Bank Limited*<sup>05</sup> were reclassified from non-core to core domestic banks in 2015. In the same year, Credit Europe Bank N.V which was previously classified as a non-core domestic bank, was reclassified as falling under the 'Other Banks' category.

2015 figures relating to the volume and segmentation of business of a number of credit institutions were still unaudited at the time of presentation of this report and accordingly may be subject to revision. The following provides a trend analysis of some of the main performance indicators for the year under review.

#### **Capital Requirements Ratio and Tier 1 Capital Ratio<sup>06</sup>**

The capital requirements ratio of the Maltese banking sector, which is expressed as the ratio of the aggregate banks' total own funds to their total risk-weighted assets, declined from 25.4 percent in 2014 to 21.2 percent in 2015. Although both the total own funds and the total risk-weighted assets of the aggregate banking sector decreased in 2015, the fall experienced by the former was significantly higher than the latter pushing down the ratio for the year. Notwithstanding, all credit institutions licensed in Malta met and the majority well exceeded the minimum required threshold of eight percent of risk weighted assets in 2015.

The Tier 1 capital ratio of the aggregate banking sector, defined as the tier 1 capital to risk-weighted assets, fell from 23.3 percent in 2014 to 18.7 percent. Original own funds declined at a faster rate than risk-weighted assets causing the ratio to fall. Despite this, all credit institutions licensed in Malta reported Tier 1 capital ratios exceeding the required minimum six percent of risk weighted assets in 2015.

Table 2 presents the capital requirements and the tier 1 capital ratios of the aggregate banking sector and the three categories of banks in Malta for the period 2014 – 2015.

**Table 2: Capital requirements ratio and Tier 1 Capital Ratio (2014 – 2015)**

		<b>2014</b>	<b>2015</b>
<b>Capital requirements ratio (%)</b>	Core Domestic Banks	13.8	14.6
	Non-Core Domestic Banks	17.9	21.3
	Other Banks	68.2	55.4
	Aggregate Banking Sector	25.4	21.2
<b>Tier 1 Capital Ratio (%)</b>	Core Domestic Banks	11.3	11.9
	Non-Core Domestic Banks	15.2	18.1
	Other Banks	68.2	54.9
	Aggregate Banking Sector	23.3	18.7

Source: Malta Financial Services Authority

<sup>05</sup> Previously known as Volksbank Malta Limited.

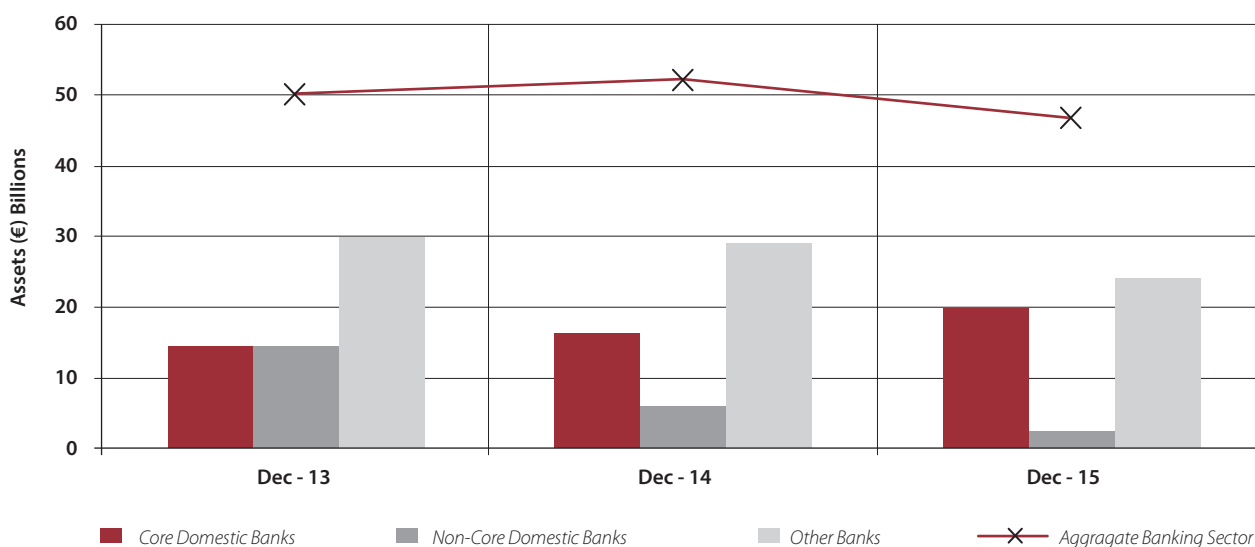
<sup>06</sup> Foreign branches which operate in Malta are not required to calculate the capital requirements ratio and consequently are not included in this analysis.

## Bank Assets

Assets of the aggregate banking sector fell by 10.3 percent in 2015 when compared to the preceding year, to stand at €46.7 billion at the end of 2015. Assets of core domestic banks expanded by almost 22 percent over the previous year. This increase is primarily attributed to the reclassification of two banks to the core category list as well as to a number of other core banks which reported growth in assets. Assets of non-core banks and other banks contracted by almost 61 and 18 percent respectively over the period 2014 – 2015.

Chart 1 represents the assets of the aggregate banking sector and the three categories of banks for the period 2013 – 2015.

**Chart 1: Assets (2013 – 2015)**



Source: Malta Financial Services Authority

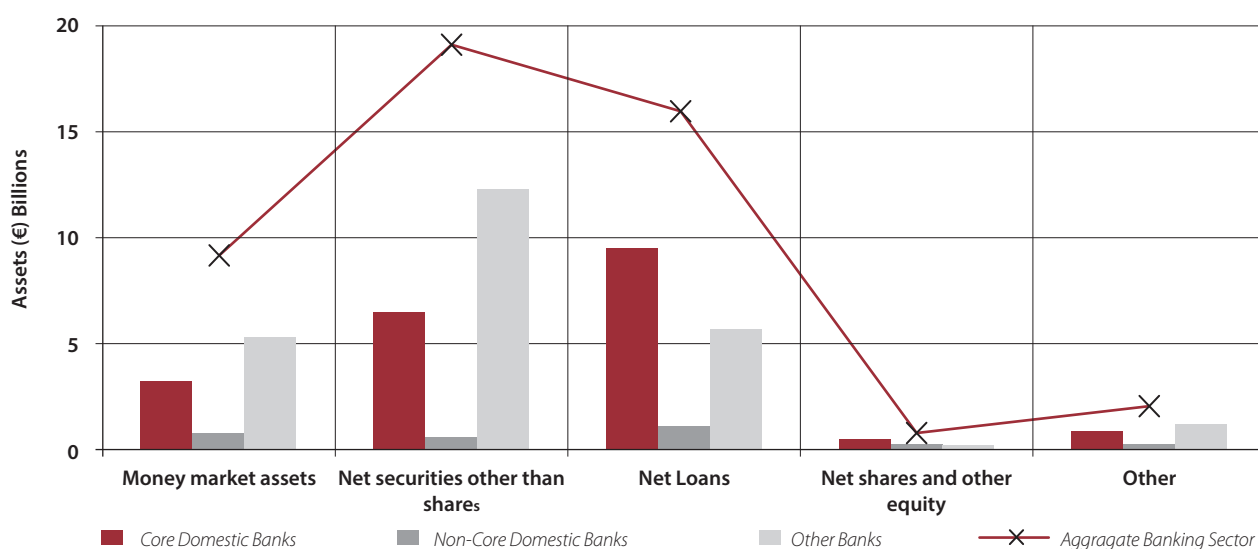
## Allocation of Bank Assets

In the aggregate banking sector, 'net securities other than shares' constituted the largest asset allocation, 41 percent of total assets, in 2015. This represents a decline of almost 3.4 percentage points from the previous year. 'Net loans' contributed more than 34 percent of the asset distribution of the sector, an increase in share of 3.6 percentage points from the preceding year. 'Money market' assets made up 19.3 percent of total assets in 2015, a decline of 2.2 percentage points when compared to the previous year.

In the domestic banking sector, 'net loans' contributed 47 percent of the total assets in 2015, followed by 'net securities other than shares' at 32 percent and 'money market' assets at 15.4 percent.

Chart 2 shows the distribution of assets of the aggregate banking sector and the three categories of banks in Malta in 2015.

**Chart 2: Distribution of assets (2015)**



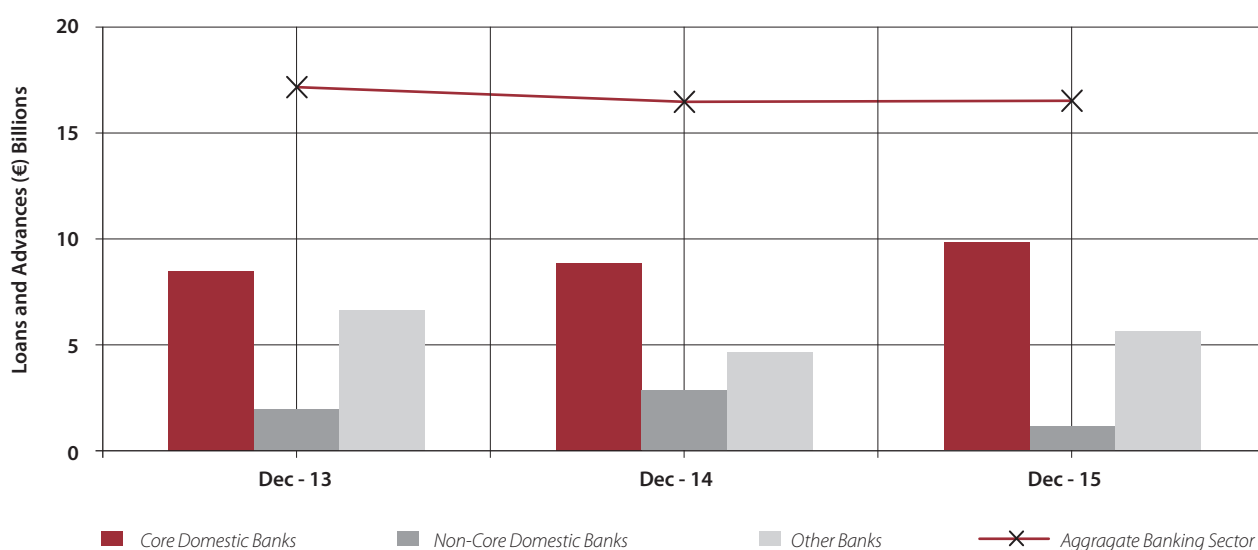
Source: Malta Financial Services Authority

### Loans and advances

Loans and advances in the aggregate banking sector increased slightly by 0.4 percent when compared to 2014, to stand at €16.5 billion at the end of 2015. Loans granted by the core domestic banks totalled €9.8 billion during the year under review, up from the €8.9 billion recorded in the preceding year.

Chart 3 presents the loans and advances granted by the three categories of banks and the aggregate banking sector for the period 2013 – 2015.

**Chart 3: Loans and advances (2013 – 2015)**



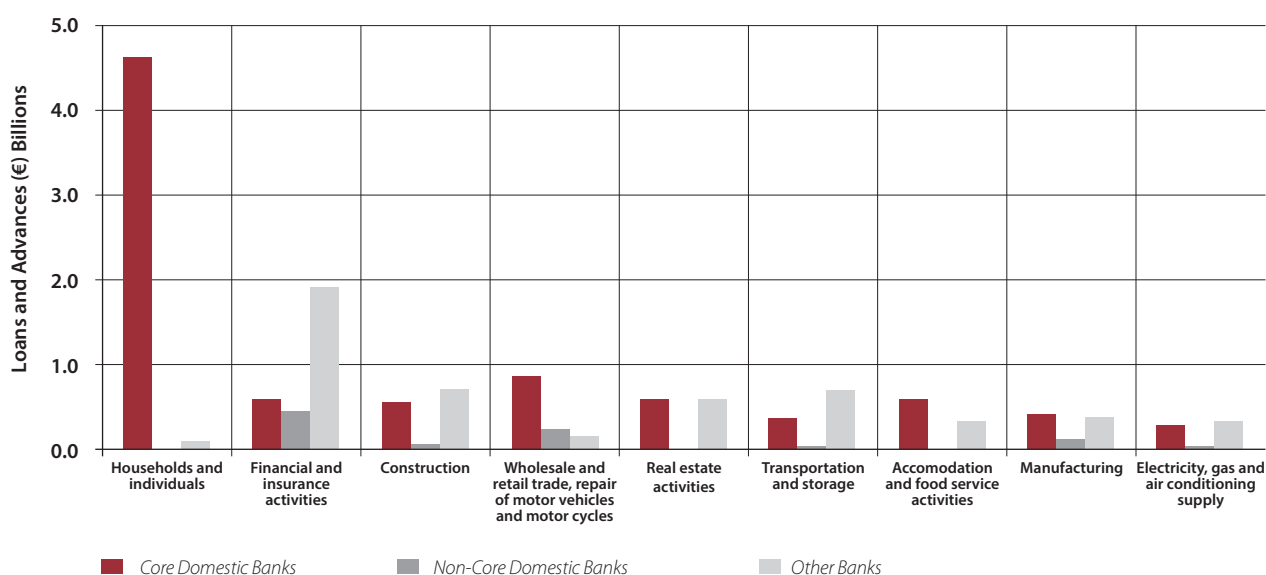
Source: Malta Financial Services Authority

In the aggregate banking sector, loans granted to 'households and individuals' made up 28.7 percent (or €4.7 billion) of the total loans in 2015. This represents an increase of 7.8 percent (or €0.34 billion) from the preceding year. Lending to 'financial and insurance activities' reached €2.9 billion or 17.7 percent of the total loans in the aggregate sector. This represents a growth of €0.7 billion or 32.7 percent over the period 2014 - 2015. Lending to 'electricity, gas and air conditioning supply' and 'transportation and storage' declined by 39.1 percent (or €0.4 billion) and 26.4 percent (or €0.39 billion) respectively in 2015 when compared with 2014.

In the domestic banking sector, lending to 'households and individuals' totalled €4.6 billion or 47.2 percent of the total lending in 2015. This was followed by the 'wholesale and retail trade, repair of motor vehicles and motor cycles' and the 'financial and insurance activities' sectors at 8.8 percent and 5.9 percent respectively. Loans advanced to the 'construction' sector declined by €0.25 billion, or 31.8 percent, over the period 2014 - 2015.

Chart 4 provides a sectoral analysis of the loans granted by the three categories of banks and the aggregate banking sector in 2015.

**Chart 4: Loans and advances - top nine sectors (2015)**



Source: Malta Financial Services Authority

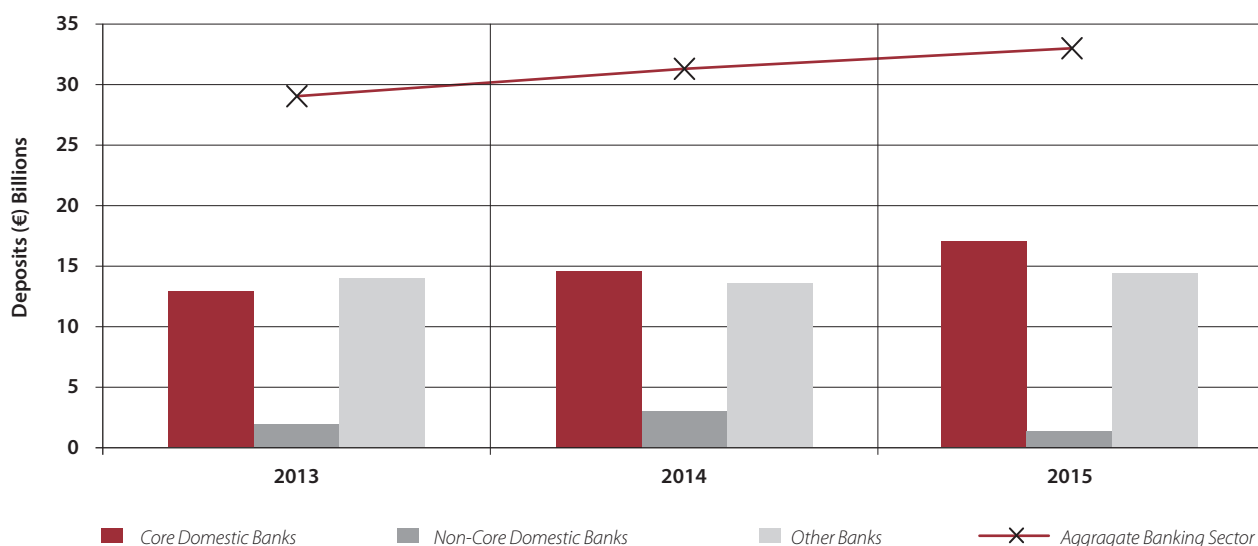
## Bank Deposits

In the aggregate banking sector, deposits reached €32.9 billion, an increase of 5.3 percent on the previous year. Deposits held by the core domestic banks grew by almost 17 percent, from €14.5 billion in 2014 to €17 billion in 2015. Non-core banks reported a decline in bank deposits of more than 52 percent in 2015 from 2014, mainly attributed to the reclassification of three credit institutions to the other two categories of banks. Deposits reported by other banks reached €14.4 billion, an increase of more than six percent from the previous year.

The core domestic banks had the largest deposits share with more than 51.6 percent of the total deposits, followed by other banks at 43.8 percent and non-core domestic banks at almost 4.6 percent in 2015.

Chart 5 shows the deposits held by the aggregate banking sector and the three categories of banks for the period 2013 – 2015.

**Chart 5: Deposits (2013 – 2015)**



Source: Malta Financial Services Authority

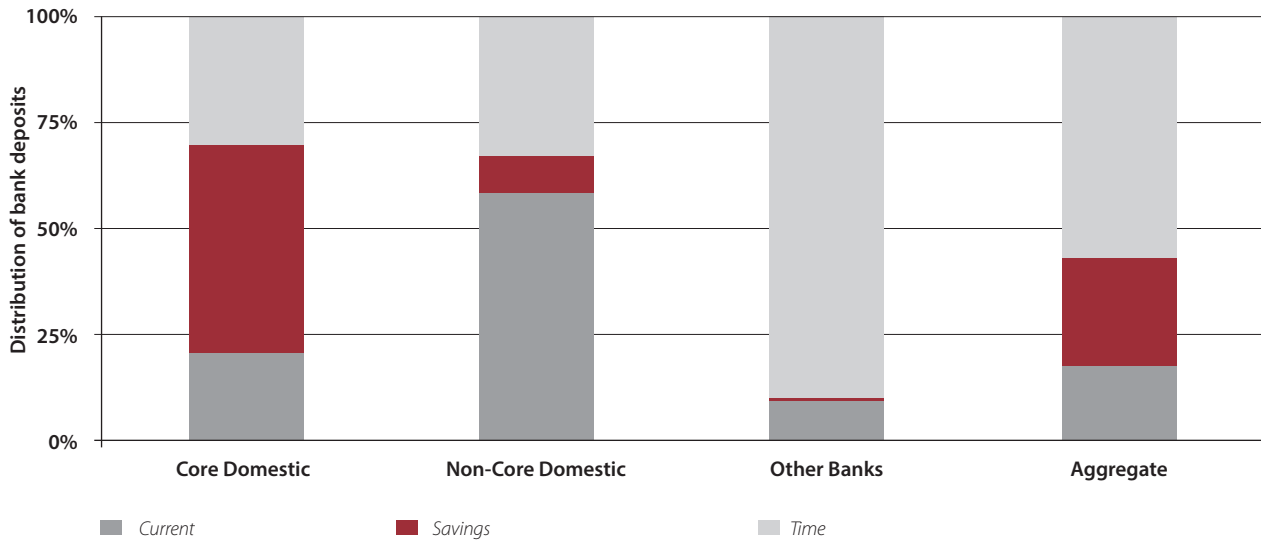
### Distribution of bank deposits

The shift in time deposits towards savings and current accounts continued to persist in 2015. In the aggregate banking sector, the share of time deposits declined from 63 percent in 2014 to 57 percent in 2015. Savings accounts increased from 23 percent in 2014 to 26 percent in 2015, while current accounts expanded by four percentage points reaching a share of 18 percent. This trend may, among other things be driven by the prevailing low interest rate environment.

In the core domestic banking sector, savings accounts made up 49 percent of total deposits, an increase of two percentage points from the previous year. Current accounts had a share of 21 percent, an increase of four percentage points from the previous year while the share of time deposits declined from 35 percent in 2014 to 30 percent in 2015.

Chart 6 illustrates the distributions of bank deposits in the aggregate banking sector and the three categories of banks in Malta in 2015.

**Chart 6: Distribution of deposits (2015)**

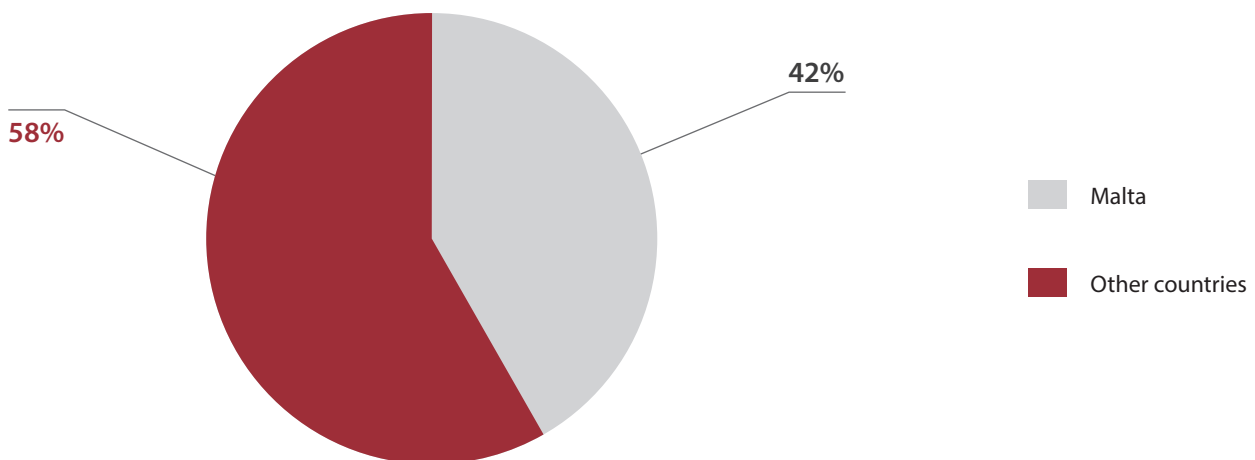


Source: Malta Financial Services Authority

### Lending and borrowing

In 2015, 42 percent of the total placements and loans in the aggregate banking sector were advanced to Maltese residents, primarily to households and non-financial corporations. This represents a share increase of seven percentage points from the previous year. The remaining 58 percent were advanced to non-Malta residents, mainly to monetary financial institutions.

**Chart 7: Placements and loans (2015)**

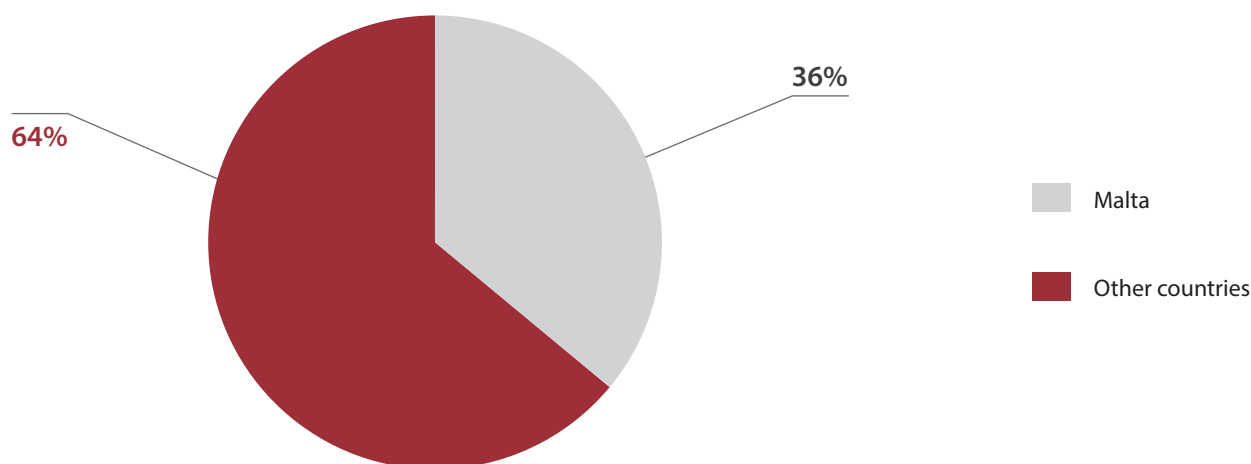


Source: Malta Financial Services Authority

Borrowings and deposits of Maltese residents held by the aggregate banking sector accounted for 36 percent in 2015, an increase of seven percentage points from 2014. The remaining 64 percent were owed to non-Maltese residents.

Chart 8 represents the distribution of banks' borrowings and deposits by residency in 2015.

**Chart 8: Borrowings and deposits (2015)**



Source: Malta Financial Services Authority

## SECURITIES AND INVESTMENT SERVICES

### General Overview

Investment services in Malta continued to register further growth following the implementation of the EU Alternative Investment Fund Managers Directive (AIFMD). The establishment of a number of AIF managers continued to strengthen the investment management sector and provide greater market access and opportunities to expand internationally.

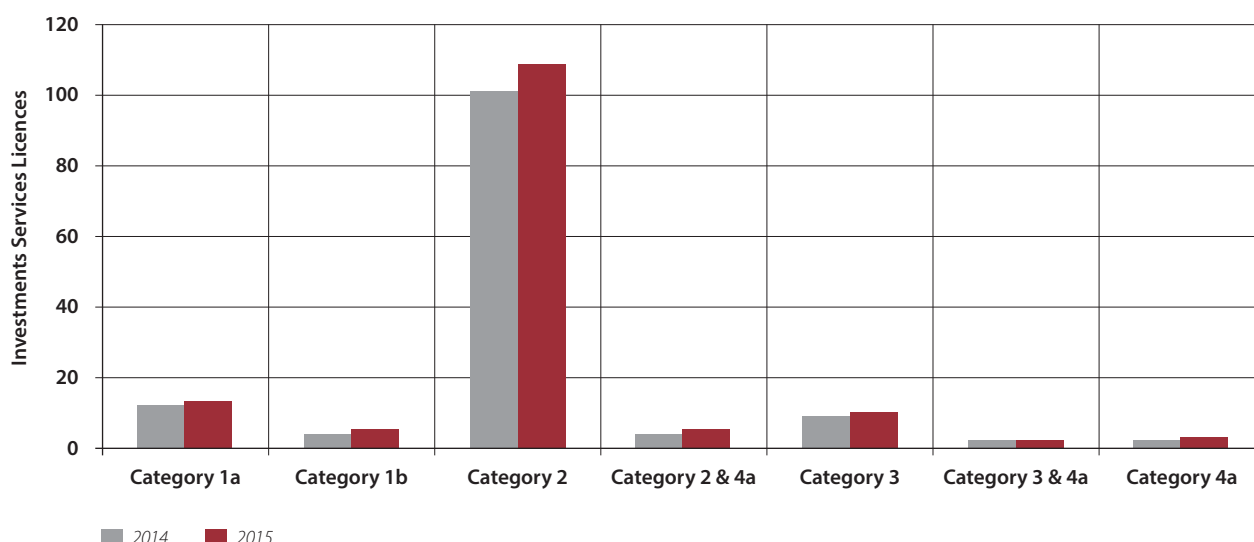
### Investment Services Licences

Investment services continued to expand with 149 licensed companies providing activities in terms of the Investments Services Act. This represents a net increase of 14 licences from the preceding year.

Over the course of 2015, the Authority licensed 15 new firms at Category 2 level, bringing the total number of Category 2 licences to 109. In addition, the Authority licensed three new firms to provide custody services, two at Category 4a and one at Category 4b. This brings the total number of Category 4a and Category 4b licences to ten and two respectively at the close of the year.

Chart 9 presents the number of licensed investment services companies by category of licence for the period 2014 – 2015.

**Chart 9: Investment services licences (2014 – 2015)**



Source: Malta Financial Services Authority

In addition to these figures, the number of fund administrators in possession of a recognition certificate issued by the Authority at the end of year stood at 27.

### The Maltese Capital Market

The Maltese Capital Market continued to register growth in 2015 with a number of prospectuses being approved by the Listing Authority for listing on the MSE or the EWSM.

Five corporate bond issues, two equity issues, four Malta Government Stock issues and one note issue, with an aggregate nominal value exceeding €0.8 billion, were approved by the Listing Authority and admitted to listing on the MSE in 2015. The total market turnover on the MSE for the year was €918.25 million, 2.4 percent less than the previous year. There was a significant increase in the trading of equities in 2015, from €50.8 million in 2014 to €81.5 million in 2015. The bond market was also very active with a trading turnover of €59.8 million in 2015, up by 38.4 percent from the previous year. Trading in Malta Government Stocks declined from €836.4 million in 2014 to €777 million in 2015.

Moreover, seven asset-backed securities, one bond issue and one note issue were approved by the Listing Authority and were admitted to listing on the EWSM in 2015.

### Collective Investment Scheme Licences

Over the course of the year, the Authority licensed 109 new funds (including sub-funds), eight less than the previous year. Of these, 11 were licensed as Alternative Investment Funds, 78 as Professional Investor Funds and 20 as UCITS Funds. The Authority also issued recognition certificates to three Private Collective Investment Schemes in the course of the year.

During the year, the Authority accepted a surrender of licence from 97 funds (including sub-funds), 26 less than the previous year. These include 92 Professional Investor Funds, three Alternative Investment Funds, and two UCITS funds.

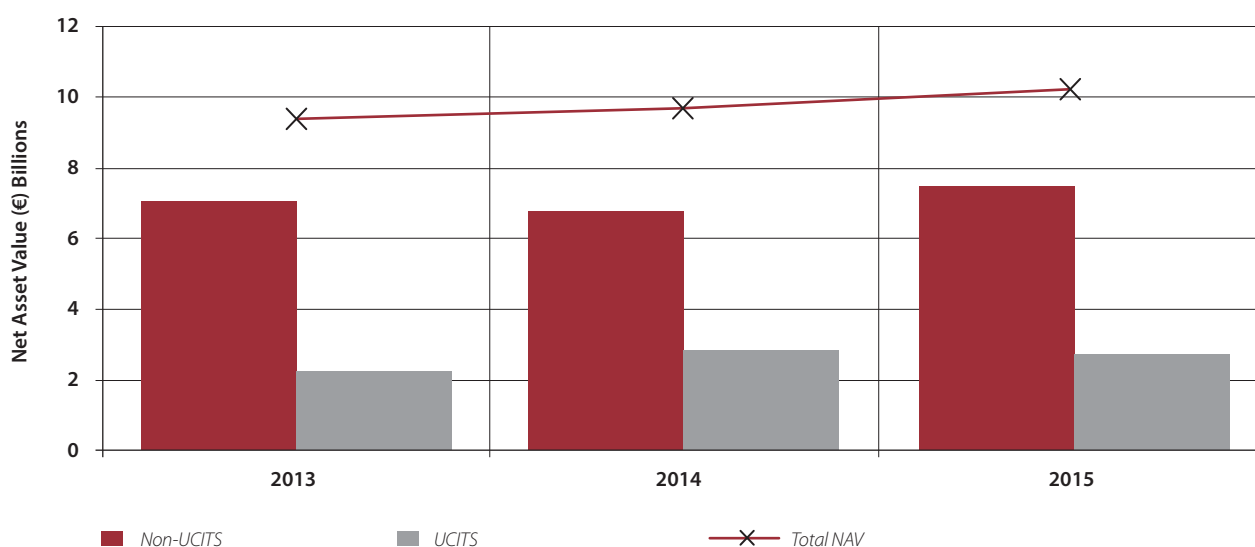


The number of non-Malta domiciled funds (including sub-funds) administered by Malta-based fund administration companies was 134, while the number of non-Malta domiciled funds (including sub-funds) managed by fund managers domiciled in Malta was 137.

### Net Asset Value of Malta Domiciled Funds <sup>07</sup>

Funds domiciled in Malta reported an aggregate net asset value of €10.3 billion at the end of 2015, an increase of 5.4 percent from the previous end year. While net assets of UCITS funds declined by 5.9 percent, Non-UCITS funds registered growth of 10.7 percent over the period 2014 – 2015.

**Chart 10: Net asset value of Malta domiciled funds (2013 – 2015)**



Source: Malta Financial Services Authority

There was a strong demand for equity funds in 2015 showing that investors were still confident in the equity market during the year despite a very challenging global economic environment. Net assets of equity funds surged by almost 16 percent to €2.6 billion at the end of the year. It was also a positive year for bond funds, mixed funds and property funds, which respectively registered a growth in net assets of 6.2 percent, 116.4 percent and 4.5 percent. In contrast, money market funds, hedge funds and diversified funds respectively lost 38.3 percent, 22.5 percent and 9.9 percent in their net assets when compared with the previous year.

### Management of Malta Domiciled Funds

About 33 percent of the funds (including sub-funds) at the end of the year were established as self-managed funds. This indicates an increase of 3.6 percentage points over the previous year. The share of funds managed by locally-based fund managers declined by almost three percentage points while funds managed from outside Malta decreased by 0.5 percentage points over the same period.

<sup>07</sup> The NAV figures available for a number of funds for 2015 were still provisional at the time of presentation of this report and accordingly may be subject to revision.

**Table 3: Management of Malta domiciled funds (2014 – 2015)**

	<b>% number of funds (including sub-funds) as at end 2014</b>	<b>% number of funds (including sub-funds) as at end 2015</b>
<b>Self-managed</b>	29.1	32.7
<b>Managed in Malta</b>	34.9	31.8
<b>Managed from outside Malta</b>	36.0	35.5

Source: Malta Financial Services Authority

#### **Administration of Malta Domiciled Funds**

At the end of 2015, 81 percent of the funds licensed in Malta were administered by fund administrators established and recognised in Malta, an increase of 5.6 percentage points from the previous year. Only 19 percent of the funds were administered from outside Malta at the end of the year.

**Table 4: Administration of Malta domiciled funds (2014 – 2015)**

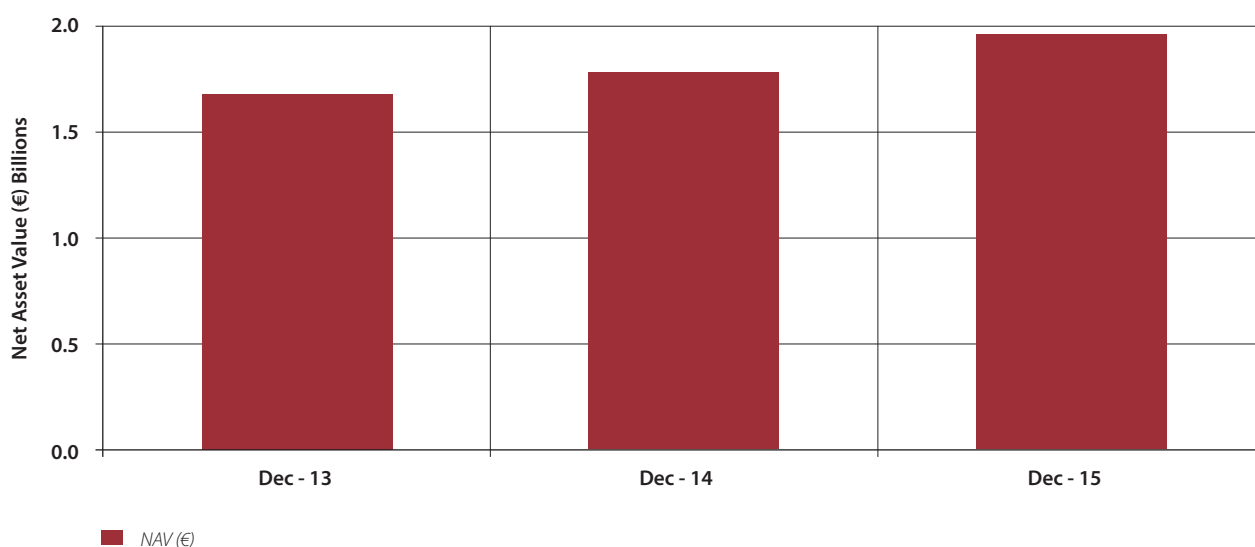
	<b>% number of funds (including sub-funds) as at end 2014</b>	<b>% number of funds (including sub-funds) as at end 2015</b>
<b>Administered in Malta</b>	75.4	81.0
<b>Administered from outside Malta</b>	24.6	19.0

Source: Malta Financial Services Authority

#### **Net Asset Value of Non-Malta domiciled funds administered in Malta**

The net asset value of non-Malta domiciled funds administered in Malta reached €1.9 billion at the end of 2015, an increase of almost seven percent from end 2014. Chart 11 refers.

**Chart 11: Net asset value of non-Malta domiciled funds administered in Malta (2013 - 2015)**



Source: Malta Financial Services Authority

### **Non-Malta domiciled funds managed in Malta**

Fund managers domiciled in Malta managed 137 non-Malta domiciled funds (including sub-funds) with assets under management totalling €23.2 billion as at the end of 2015.

## **INSURANCE BUSINESS**

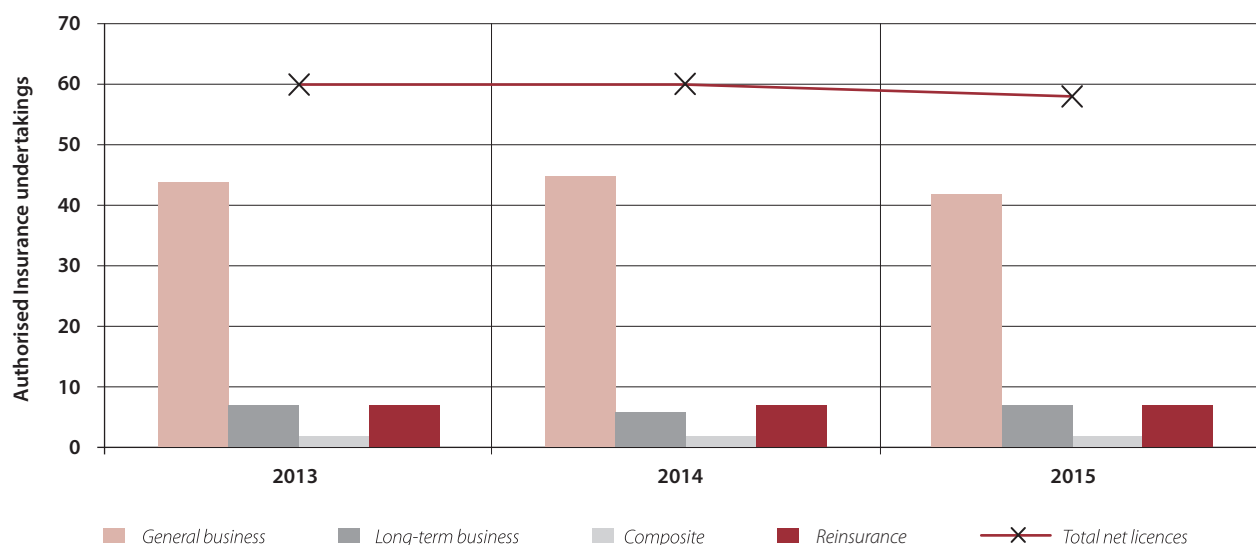
### **General Overview**

Malta continues to enjoy a reputation as an attractive jurisdiction for operators wishing to set up or redomicile captive and other insurance and reinsurance business. The legislative framework caters for the setting up of innovative structures, with the number of Protected Cell structures on the increase. The retirement pensions sector maintained its positive trend with the establishment of more retirement schemes.

### **The Insurance Sector**

The insurance sector comprised of 58 insurance undertakings authorised to carry on business activities in terms of the Insurance Business Act. These included 42 undertakings authorised to carry on general business, seven long-term business, two composite and seven reinsurance. Chart 12 refers. Of these, seven undertakings were authorised to carry on affiliated business while 12 undertakings were authorised as Protected Cell Companies.

**Chart 12: Insurance undertakings authorised in Malta (2013 – 2015)**



Source: Malta Financial Services Authority

Figures available with respect to the volume and segmentation of insurance and reinsurance business for 2015 were still unaudited at the time of presentation of this report and therefore may be subject to revision. The following presents a trend analysis of some of the main performance indicators for the year under review.

### Solvency Ratio

The solvency ratio, defined as the ratio of capital available to required regulatory capital, of all insurance undertakings declined from 323 percent in 2014 to 306 percent in 2015. While the solvency ratios of the general business and long-term business undertakings increased by 31 percentage points and three percentage points respectively when compared to the preceding year, the ratio for pure reinsurance undertakings declined by 42 percentage points.

Table 5 presents the solvency ratios for general business, long-term business, pure reinsurance and the aggregate ratios for all insurance undertakings for the period 2013 – 2015.

**Table 5: Solvency ratios (2013 – 2015)**

	2013	2014	2015
<b>General Business</b>	424%	454%	485%
<b>Long-term Business</b>	191%	186%	189%
<b>Pure Reinsurers</b>	326%	268%	226%
<b>All Insurance undertakings</b>	339%	323%	306%

Source: Malta Financial Services Authority

### Total gross written premiums

Gross written premiums of insurance undertakings licensed in Malta increased by 33.6 percent, from €2.83 billion in 2014 to €3.78 billion in 2015. In general business, gross written premiums increased by 51.5 percent while in long-term business gross written premiums expanded by almost seven percent during the period 2014 - 2015.

**Table 6: Gross written premiums of insurance undertakings licensed in Malta (2013 – 2015)**

	2013	2014	2015
	Billion €	Billion €	Billion €
<b>Total gross written premiums</b>	2.58	2.83	3.78

Source: Malta Financial Services Authority

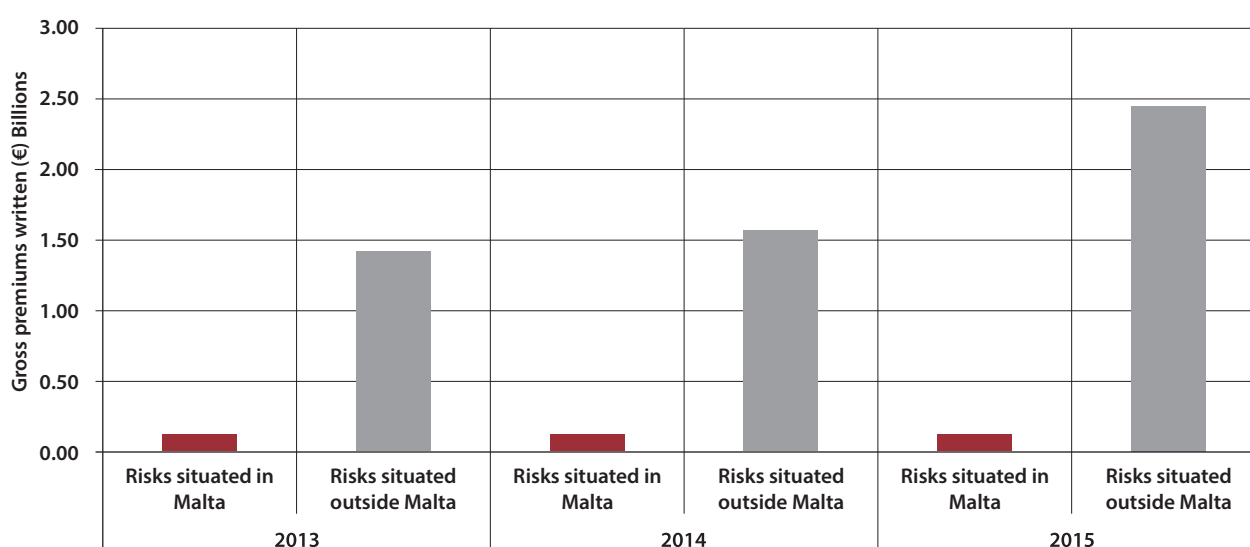
### The General Business Sector

#### Gross written premiums

Gross written premiums of insurance undertakings licensed in Malta writing general business in and outside Malta increased from €1.69 billion in 2014 to €2.56 billion in 2015, representing an increase of almost 51.5 percent. Gross written premiums in relation to risks situated in Malta expanded by almost five percent over the period 2014 - 2015, to stand at €120.92 million. Gross written premiums in relation to risks situated outside Malta surged by over 55 percent, from €1.57 billion in 2014 to €2.44 billion in 2015. This increase is mainly attributed to the increase in gross written premiums reported by a number of insurance undertakings as well as to new insurance undertakings and insurance cells approved during the year

Chart 13 represents the gross written premiums of companies with their Head Office in Malta writing general business in relation to risks situated in and outside Malta for the period 2013 – 2015.

**Chart 13: Gross written premiums by undertakings with Head Office in Malta - General Business (2013 – 2015)**



Source: Malta Financial Services Authority

### Gross Claims Paid

Gross claims paid of insurance undertakings writing general business expanded from €0.83 billion in 2014 to €1.19 billion in 2015, an increase of more than 43 percent from the preceding year. Gross claims paid in respect to risk situated in Malta increased by 11.5 percent in 2015 when compared to 2014, while there was an increase of 45.8 percent in respect to risks situated outside. This is due to the increase in gross claims paid experienced by a number of insurance undertakings

Table 7 presents the gross claims paid by undertakings with their head office in Malta writing general business for the period 2013 – 2015.

**Table 7: Gross claims paid by undertakings with Head Office in Malta – General Business (2013 - 2015)**

	<b>2013</b>		<b>2014</b>		<b>2015</b>	
	<i>Risks situated in Malta</i>	<i>Risks situated outside Malta</i>	<i>Risks situated in Malta</i>	<i>Risks situated outside Malta</i>	<i>Risks situated in Malta</i>	<i>Risks situated outside Malta</i>
	<i>Million €</i>	<i>Million €</i>	<i>Million €</i>	<i>Million €</i>	<i>Million €</i>	<i>Million €</i>
<b>Gross claims paid</b>	54.07	706.53	52.65	773.94	58.70	1,128.61

Source: Malta Financial Services Authority

### Key financial indicators

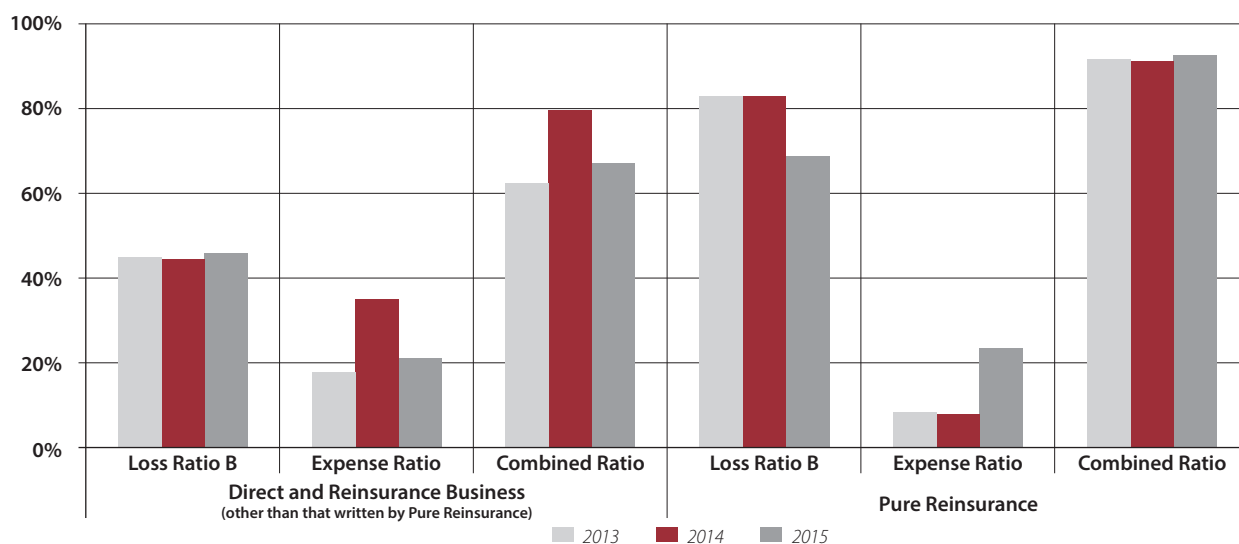
The net loss ratio, defined as the ratio of net claims incurred to net premiums earned, for the general business<sup>08</sup> increased slightly from 44.8 percent in 2014 to 45.8 percent in 2015. The expense ratio, calculated as the ratio of net operating expenses to net premiums earned, dropped from 35.1 percent in 2014 to 21.3 percent in 2015. The combined ratio, calculated as the sum of net claims incurred and the net operating expenses over the net earned premiums, weakened from 79.8 percent in 2014 to 67.1 percent in 2015.

For the pure reinsurance business, the net loss ratio declined by 14 percentage points to 68.9 percent in 2015. The expense ratio increased from 8.3 percent in 2014 up to 23.8 percent in 2015, while the combined ratio increased slightly by 1.3 percentage points to 92.6 percent in 2015.

<sup>08</sup> Direct and reinsurance business other than that written by pure reinsurance.

Chart 14 shows the net loss ratio, expense ratio and combined ratio for general business undertakings and pure reinsurance for the period 2013 – 2015.

**Chart 14: Loss ratios for general business undertakings writing direct and reinsurance business (other than that written by pure reinsurance) and pure reinsurance undertakings only (2013 – 2015)**



Source: Malta Financial Services Authority

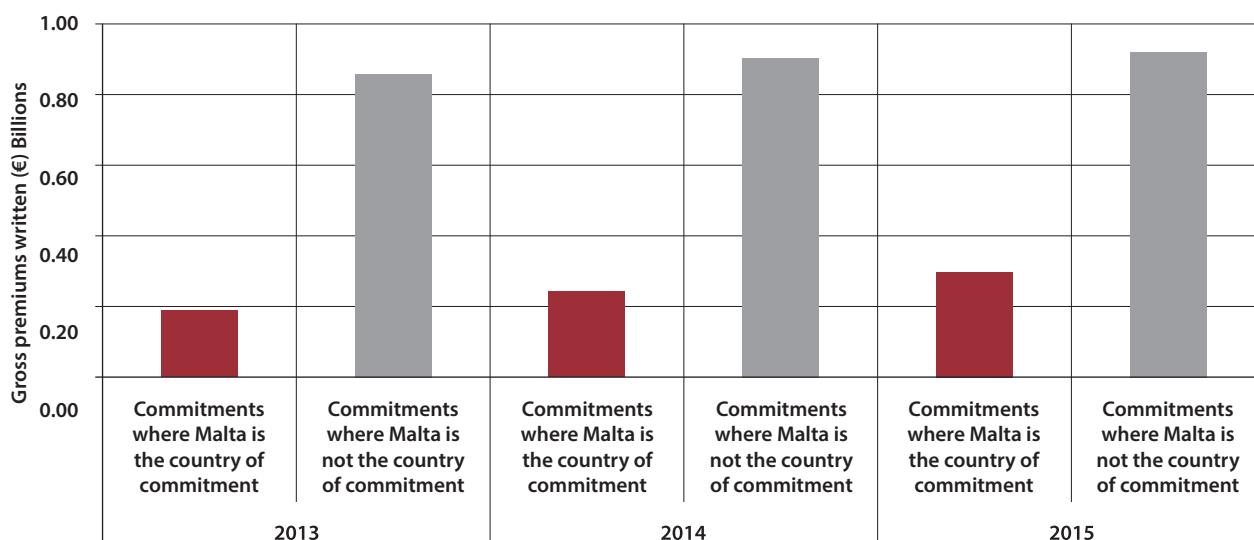
## The Long-term Insurance Sector

### Gross written premiums

In the long-term business, the gross written premiums of undertakings with Head Office in Malta increased from €1.14 billion in 2014 to €1.22 billion in 2015, representing an increase of almost seven percent. Gross written premiums where Malta is the country of commitment surged by 25.3 percent while there was a slight increase of 1.7 percent in gross written premiums with respect to commitments outside Malta.

Chart 15 shows the gross written premiums of undertakings writing long-term business in relation to risks situated in and outside Malta for the period 2013 – 2015.

**Chart 15: Gross written premiums by undertakings with Head Office in Malta – Long-term business (2013 – 2015)**



Source: Malta Financial Services Authority

### Gross Claims Paid

Gross claims paid increased by more than eight percent in 2015 when compared to 2014, to stand at €1.05 billion at the end of 2015. Gross claims paid with respect to risks situated in Malta surged by 4.4 percent while gross claims paid in respect to risks outside Malta decreased by 8.8 percent over the period 2014 - 2015.

**Table 8: Gross claims paid by undertakings with Head Office in Malta – Long-term business (2013 - 2015)**

2013		2014		2015	
Commitments where Malta is the country of commitment	Commitments where Malta is not the country of commitment	Commitments where Malta is the country of commitment	Commitments where Malta is not the country of commitment	Commitments where Malta is the country of commitment	Commitments where Malta is not the country of commitment
Million €	Million €	Million €	Million €	Million €	Million €
138.7	991.3	156.0	818.0	162.8	889.9

Source: Malta Financial Services Authority

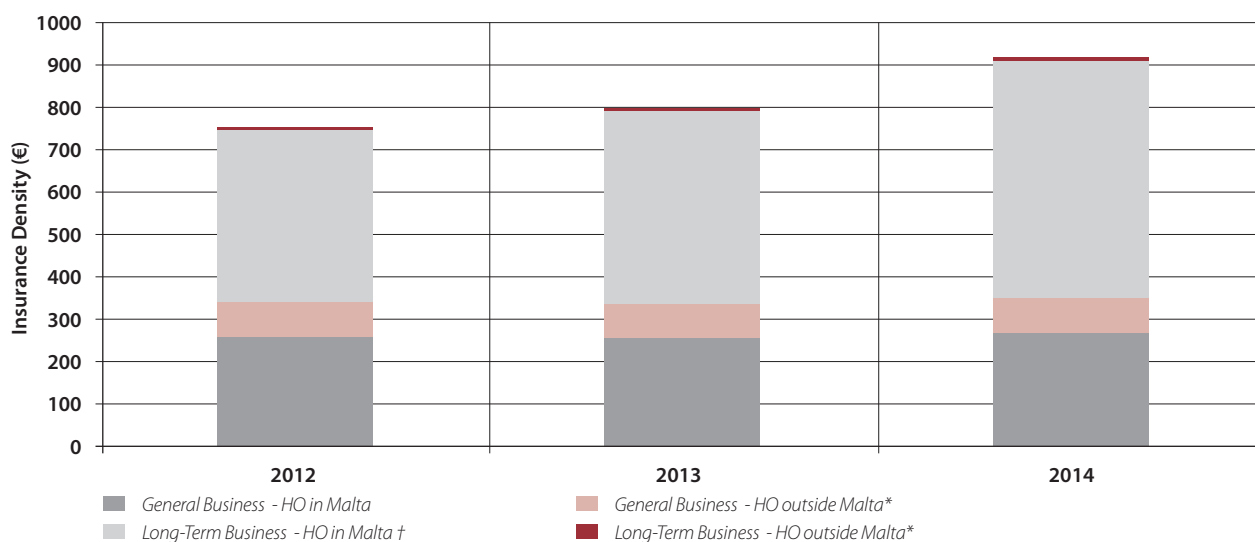
Figures of undertakings with Head-Office outside Malta writing long-term and general business in relation to risks in Malta in 2015 were unavailable at the time of presentation of this Report. Consequently, the analysis of the insurance density and insurance penetration covers the period 2012 – 2014.



## Insurance Density

The insurance density, expressed as the ratio of total insurance gross written premiums in respect to risks and commitments in Malta to population, increased from €799 in 2013 to €915 in 2014. This represents an increase of 14.5 percent. The insurance density in the general business went up from €336 in 2013 to €350 in 2014. In the long-term business, the insurance density increased from €463 in 2013 to €565 in 2014.

**Chart 16: Insurance density with respect to risks and commitments situated in Malta (2012 - 2014)**



Source: Malta Financial Services Authority

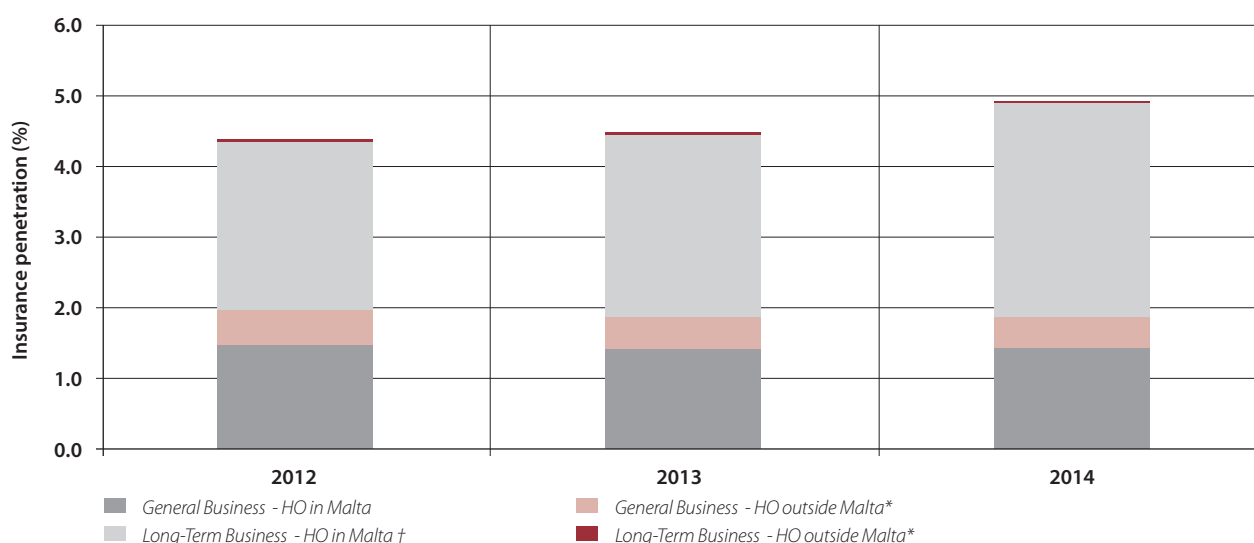
\*refers to non-EU/EEA insurers authorised under the Act and EU/EEA insurers carrying out business in Malta under the right of establishment or through agents (in the long-term business). † Long-term business includes investment contracts without discretionary participation features.

## Insurance Penetration

The insurance penetration rate, expressed as the ratio of total insurance premiums in respect to risks and commitments in Malta to gross domestic product<sup>09</sup>, increased to almost five percent in 2014. For the general business, the penetration rate remained unchanged at almost two percent while for the long-term business, the rate increased by 0.4 percentage point, from 2.6 percent in 2013 to 3.1 percent in 2014.

<sup>09</sup> GDP is computed at market price (Sourced from National Statistics Office).

**Chart 17: Insurance penetration rate with respect to risks and commitments situated in Malta (2012 - 2014)**



Source: Malta Financial Services Authority

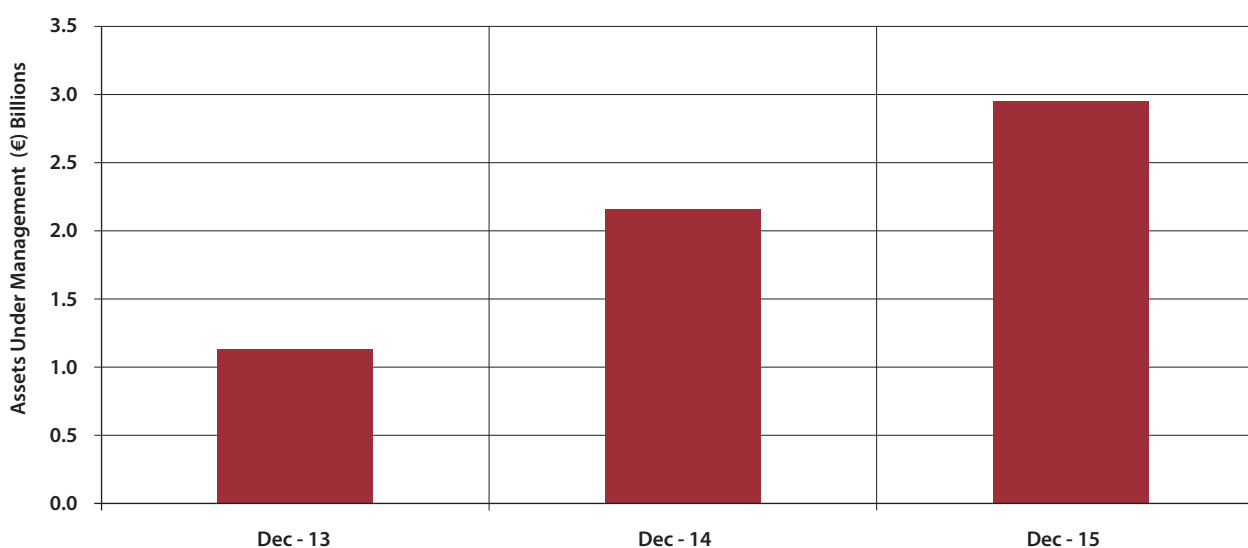
\* refers to non-EU/EEA insurers authorised under the Act and EU/EEA insurers carrying out business in Malta under the right of establishment or through agents (in the long-term business). † Long-term business includes investment contracts without discretionary participation features.

### Retirement Pension Schemes

The number of retirement pension schemes registered in Malta at the end of 2015 was 36, one more than the preceding year. Two retirement funds were also registered with the Authority during the year.

Assets under management held by retirement pension schemes reached almost three billion euro at the end of 2015, an increase of more than 36 percent from the previous year.

**Chart 18: AUM of retirement pension schemes (2013 - 2015)**



Source: Malta Financial Services Authority

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# SUPERVISION AND COMPLIANCE

The Supervisory Council is responsible for the processing, approval and issuing of licences and other authorisations, and for the monitoring and supervision of entities and individuals licensed or authorised by the Authority. During 2015 the Council met 44 times to approve new licences, decide on compliance and other supervisory issues, sanction breaches of licence conditions and take other regulatory measures as appropriate.

Applicants for licences must satisfy the requirements contained in the relevant legislation and comply with the ongoing obligations that apply under the relevant licence once this has been issued. The general criteria that are taken into consideration in the granting or refusal of licences include the general interests and legitimate expectations of consumers of financial services; the promotion of fair competition and choice and Malta's international commitments including those as a member of the European Union.

As a signatory to the Multilateral Memoranda of Understanding on co-operation and information exchange of the International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities Commissions (IOSCO), the MFSA's approach to supervision is modelled on IAIS and IOSCO Core Principles as well as on EU legislation.

With respect to banking, the Authority forms an integral part of the Single Supervisory Mechanism (SSM) established by the European Union in November 2014. The MFSA participates in the SSM Supervisory Board decision-making. The Supervisory Board plans and carries out the SSM's supervisory tasks and proposes draft decisions for adoption by the ECB's Governing Council. Officials from the MFSA regularly attend meetings of various working groups within the SSM.

The MFSA also forms part of the European System of Financial Supervisors (ESFS) and participates in meetings of the Boards of Supervisors of the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), the European Insurance and Occupational Pensions Authority (EIOPA) and the General Board of the European Systemic Risk Board (ESRB). It also attends committee and various technical level meetings of these European supervisory bodies.

## **Review of Supervisory Processes**

During the year the MFSA continued to enhance its Supervisory Review Processes taking a risk-based, proactive and proportionate approach to the supervision of licence holders across all sectors. This included a review of the governance mechanism within the Insurance and Pensions Supervisory Unit (IPSU) which required the drafting of a number of policies, procedures and processes to support the governance system of the Unit and the establishment of a Risk Management Review Panel which forms an integral part of the risk management function within the Unit.

The Authority also started aligning the supervisory review process to ensure it has the necessary capability to supervise undertakings under the Solvency II regime. This work was extended to include group supervision. Supervisory tools were further developed to ensure that the Authority continues to focus on undertakings that pose the greatest threat to financial stability and policyholders and to ensure that risks are being identified, assessed and monitored on an ongoing basis.

The pension supervisory framework was also revamped in line with the requirements of the Retirement Pensions Act.

The Securities and Markets Supervision Unit (SMSU) also developed a new risk monitoring system based on composite risk ratings assigned to licence holders. The system is based on parameters that are set to ensure that the global licence holder risk and the individual licence holder risk do not stray beyond pre-defined limits. Fourteen variables capturing the size and nature of the business of the licence holders, number and type of clients, governance indicators and regulatory history are incorporated in the risk monitoring system.

## SUPERVISORY ACTION

The Authority had over 138 employees directly engaged in the licensing, regulation and supervision of licensed entities during 2015. Supervision is carried out through both off-site and on-site compliance activities.

### Off-site supervision

The off-site supervisory process includes the review and approval of ongoing developments in the business of licensed entities, such as the review and approval of changes in qualifying shareholding, directors and senior management, and changes in statutory instruments; transfers of portfolios in the case of non-life business; mergers, and reductions and increases in the capital of licensed entities. Off-site compliance staff also monitor adherence to prudential requirements through the review of periodical returns and statutory reports, audited financial statements and other documentation. The implementation of certain regulations and technical standards may also involve off-site staff in the analysis of specific components in the operations of licence holders so that appropriate supervision is assured.

Detailed off-site analysis was carried out on the Internal Capital Adequacy Process (ICAAP) reports of credit institutions and the Risk Management Internal Capital Adequacy Assessment Process (RMICAAP) reports submitted by investment service licence holders. As part of the Solvency II preparatory measures, the MFSA also reviewed the Forward Looking Assessment of Own Risks (FLAOR) reports submitted by insurance and reinsurance undertakings. Further Solvency II preparatory measures involved the analysis of data submitted in the Quantitative Reporting Templates and Regular Supervisory Reports covering Information on System of Governance and Information on Valuation for Solvency Purposes submitted by undertakings falling within the reporting threshold.

During the year the MFSA also monitored media advertising placed by authorised persons, newspaper articles and media coverage related to companies whose securities are traded on the MSE. The Authority carried out 60 thematic reviews. These reviews form part of the risk-based approach used by supervisors to identify non-compliant institutions. The process starts with a desk based review and other off-site work and may continue with an on-site meeting or meetings, possibly followed by a focused or full blown compliance visit, depending on the findings.

### On-site supervision

The Authority's on-site supervision programme aims to determine the level of compliance with statutory obligations, rules and regulations, including conduct of business and internal governance, and to detect weaknesses or shortcomings in the supervised entities under review. On site visits further ensure that corrective measures identified during previous inspections or through off-site analysis are followed up and implemented by the relevant entities.

On-site supervision enables the Authority to delve deeper into the operations of the licence holders and facilitates the understanding of market and industry practices. This aspect of supervision takes the form of broad-based or focused visits as required. The type of visit depends on whether the objective is to scrutinise a particular area of compliance or to carry out a more general assessment of the state of compliance within the industry. This is ultimately determined by the nature of the risk posed by the relevant licence holder/s and the theme or themes being investigated.

MFSA supervisors conducted 77 on-site inspections during 2015. The duration of these inspections varies depending on the nature of the inspection and type of licence holder but can take anything from a few days to several weeks. On-site inspection visits are supplemented by a number of other meetings with licence holders which are usually held at the MFSA. More than 450 of these supplementary meetings were held with during the year. Table 9 below provides a breakdown of on-site inspections carried out this year.

**Table 9 – On-site inspections carried out in 2015**

<b>Type of Institution</b>	<b>No. of Visits</b>
Credit & Financial Institutions	8
Regulated Markets	3
Insurance Companies	2
Insurance Intermediaries	1
Retirement Pension Schemes	3
Collective Investment Schemes	11
Investment Services	27
Trustees	12
Corporate Service Providers	10

*Source: Malta Financial Services Authority*

### **Supervision of Insurance Business**

The majority of compliance work carried out by the Insurance and Pensions Unit during the year was undertaken to assess the level of preparation, including systems and processes, related to the implementation of Solvency II measures introduced by the respective licence holders.

#### **i. Solvency II Preparatory work**

The MFSA continued to engage with insurance and reinsurance undertakings to assess their level of preparedness in respect of Solvency II, including steps taken and the progress made by these undertakings in terms of the relevant EIOPA preparatory guidelines. This assessment was carried out through on-site visits and other exchanges with licence holders. As part of this exercise 28 undertakings were asked to provide a detailed presentation to the Authority in relation to Solvency II preparedness. Written feedback was provided by the Authority at various stages of the process. By the end of 2015, the MFSA completed a two-year programme under which it engaged with all insurance and reinsurance undertakings in preparation for the coming into force of Solvency II on 1<sup>st</sup> January 2016.

As part of the programme insurance and reinsurance undertakings were also required to submit to the MFSA the Forward Looking Assessment of Own Risks (based on the ORSA – Own Risk and Solvency Assessment – Principles) (FLAOR) Report. This was reviewed by the Authority for the purpose of assessing their level of preparedness and understanding in relation to the FLAOR process and to determine whether they were in compliance with EIOPA Guidelines.

The MFSA also assessed various undertakings to determine how group supervision will apply in accordance with the Solvency II Directive. These undertakings were requested to identify the entity responsible for governance requirements at group level. As at end of 2015, the MFSA was the group supervisor of 25 local insurance groups.

#### **ii. Solvency II Approval Processes**

##### *Approval for use of ancillary own funds*

The Solvency II Directive introduced the concept of ancillary own funds. The use of ancillary own funds requires supervisory approval. The Authority approved two such applications in 2015.

### *Approvals of Internal model applications (full and partial)*

During the year under review, the MFSA took a final decision to allow a solo undertaking to use the Group Internal Model to calculate the Solvency Capital Requirement under Solvency II in terms of Article 5 (1) of the Commission Regulation laying down implementing technical standards on the process of reaching a joint decision on the group internal model (Commission Implementing Regulation 2015/461/EU). This approval became effective on 1<sup>st</sup> January 2016.

### *Insurance Groups*

All insurance and reinsurance groups subject to group supervision are in terms of the Solvency II Directive required to have a group supervisor appointed from among the supervisory authorities involved. At the end of 2015, the MFSA was a member of the college of supervisors of 4 international insurance groups. In this respect the MFSA signed 4 coordination arrangements with its respective counterparts.

## **Supervision of Pensions**

As part of its ongoing supervision process, the MFSA carried out a number of on-site visits at Retirement Scheme Administrators. Retirement Scheme Administrators were granted a period of one year (up to 31<sup>st</sup> December 2015) to comply with the new regime set out in the Retirement Pensions Act. The visits focused on reviewing how effectively the Retirement Scheme Administrators were aligning their activities to comply with the Retirement Pensions Act and related supplementary legislation.

## **Supervision of Investment Services**

A number of compliance visits were carried out at the offices of entities licensed in terms of the Investment Services Act. These included visits to investment firms, fund managers, Collective Investment Schemes, custodians and the MSE. The visits were focused on governance, compliance and risk management processes. These reviews were designed to verify the extent to which selected licence holders have proper systems in place and the extent to which these are being complied with and applied in practice. The MFSA also conducted ten on-site inspections related to the implementation of EMIR. These inspections were carried out in order to verify the status of the implementation of this regulation by the relevant entities.

Following the visits various communications were issued to respective licence holders setting out the findings and advising them to take corrective action.

## **Outcomes from on-site visits**

Based on the general outcomes arising out of the on-site visits undertaken during the year a number of industry circulars were also issued in order to help licence holders avoid the common pitfalls related to the observance of regulatory and compliance standards. An overview of these outcomes is provided below.

### **i. General Observations**

A number of findings were common in both Collective Investment Schemes and fund managers. A general observation related to weaknesses in the establishment and maintenance of a conflicts of interest policy and the implementation of the necessary organisational and administrative arrangements designed to prevent conflicts of interest. It was also noted that in certain cases Board of Director meetings were not being held frequently enough.

Some licence holders were required to amend the Key Investor Information Document (KIID) and ensure that the required information, including details of fund performance, is properly and accurately documented. The Authority also noted several deficiencies with respect to Procedures Manuals and Policies, which ranged from such documents not being approved by the Board of Directors to inadequately drawn up procedures.

## ii. Collective Investment Schemes

The MFSA found that the majority of Collective Investment Schemes placed significant reliance on the internal control processes and procedures of their service providers. Many Collective Investment Schemes do not perform due diligence and monitoring of their service providers, relying on constant communication with them and their good reputation. Collective Investment Schemes were advised by the Authority to conduct due diligence and ongoing onsite monitoring in an appropriately formalised and documented manner. Certain deficiencies in compliance reports were also frequently encountered.

The Authority also noted that shareholders meetings were sometimes held infrequently, that record-keeping and safekeeping of assets was in particular instances found to be wanting, and that in some cases Total Expenses Ratios (TERs) were higher than expected. It was also noted that a number of Collective Investment Schemes failed to present service provider reports to Board of Director meetings.

## iii. Fund Managers

The Authority also identified a number of deficiencies relating to the governance of fund managers. These entailed lack of adequate substance, insufficient independence between the fund manager and the collective investment scheme, shortcomings in the Investment Committee meeting proceedings and inadequately documented training logs. Some fund managers were advised or required to take out and maintain professional indemnity insurance.

One of the main areas addressed during compliance visits to fund managers, particularly at AIFMs, was remuneration. Some remuneration policies were found not to be in line with AIFM Directive requirements. Another area covered during onsite inspections was delegation and outsourcing obligations. The main findings related to the fact that no specification of the remuneration to be paid for the delegated function was available and no ongoing monitoring of the delegated functions was conducted.

It was also noted that some fund managers failed to record pre-deal communication exchanged between the risk management function and the portfolio management function.

## iv. Investment Firms

Compliance visits to investment firms focused on governance, risk management and compliance, and also included a review of clients' monies and clients' assets reconciliation process. Throughout these visits a number of shortcomings were identified.

The most common findings were in relation to governance and internal procedures.

In certain cases, internal reporting lines were not clearly defined and were not formalised in the procedures manual. Additionally, terms of reference relating to the organisational structure of internal committees were not always drawn up or signed by the relevant parties.

MFSA officials also reviewed the firms' risk management function. The Authority found cases where the risk management procedures appraised were of a general nature and did not address the firms' actual and specific circumstances. It was also noted that not all firms had a remuneration policy in place, as required by the rules and that Compliance Officers were not always being involved in material business decisions being taken.

A review of client monies and client asset accounts was also undertaken in a number of cases. MFSA officials identified cases where [i] reconciliations were not being conducted in a timely manner; and/or [ii] there was no evidence of the dual control principle being properly observed for such reviews. It was emphasised that the four eyes principle should be properly applied when carrying out a reconciliation exercise and that this test should be included in the compliance monitoring programme.

## **v. European Market Infrastructure Regulation (EMIR)**

A number of shortcomings were identified during compliance visits carried out in relation to the implementation of the EMIR. The Authority found that certain entities did not have the necessary procedures in place to report derivative transactions to Trade Repositories. Other entities were found not to have the necessary policies in place to manage possible risks relating to over-the-counter (OTC) derivative transactions.

## **Supervision of Credit and Financial Institutions**

The remits of the Banking Supervision Unit were re-defined as a result of the implementation of the SSM in November 2014. The Unit is composed of three sections dealing with: (i) Joint Supervision Team (JST) work flows pertaining to the three Significant Institutions and general On-Site responsibilities; (ii) Less Significant Institutions (LSIs) Supervision and Supervisory Reporting, and (iii) Non-SSM Work and Policy issues.

### **i. Supervision of Significant Institutions (SIs)**

The day-to-day supervision of SIs is conducted by JSTs. The JSTs comprise staff from both the ECB and the National Competent Authorities (NCAs) of the countries in which the credit institutions of a given banking group are established. A JST is established for each significant institution.

During the year the MFSA conducted one on-site inspection to a SI. The inspection served as a follow-up to the AQR undertaken in 2014. This was a focused inspection visit which assessed the progress achieved by the respective bank on the recommendations highlighted during the AQR exercise.

The MFSA continued to participate in the supervisory work undertaken by the three JSTs for Bank of Valletta p.l.c., HSBC Bank Malta plc and Deutsche Bank (Malta) Ltd. Substantial preparatory work was also undertaken by the ECB/MFSA members of the JST nominated for Medifin Holdings Limited (MFH) in anticipation of the expected change in the latter's status to that of a SI in 2016. The work of the JSTs forms an essential part of the on-going supervision process and includes regular meetings with banks' senior officials and directors of the board, an ICAAP review, as well as follow-up on findings and recommendations made following on-site inspections.

A CA was also carried out on MFH as part of the preparatory work of the JST. The Comprehensive Assessment aims at enhancing the quality of information available on the condition of bank in order to identify problems and implement necessary corrective actions before the bank comes under the direct supervision of the SSM. During 2015, Bank of Valletta took part in the EU-wide stress test carried out to ensure transparency across the banking system in the EU. The exercise is aimed at identifying trends, risks and vulnerabilities stemming from a micro-prudential level. A stress testing exercise was also carried out on MFH as part of the CA.

### **ii. Supervision of Less Significant Institutions (LSIs)**

LSIs are directly supervised by the Authority, with additional reporting obligations to DG Micro-Prudential Supervision III (DG MS III) of the ECB under the SSM.

During 2015, the MFSA conducted 6 on-site visits to LSIs. These included four broad based visits and two focused visits. The latter two were focused respectively on internal governance structures and processes, including internal control mechanisms, and on risk strategies, risk management, capital planning and other ICAAP related matters.

During the year the Authority aligned its reporting methodology with that of the SSM and adopted new reporting requirements which enable DG MS III to monitor the conduct of supervision. MFSA staff members have been involved in the Senior Management Network (SMN) and its sub-working group on High Methodology Standards. The remit of the latter working group is to develop standards to enable competent authorities to harmonise their supervisory practices.

The MFSA regularly reports to the SSM on its risk analysis of LSIs. It also notifies any regulatory concerns it may have through the ex-ante notifications process.



### iii. Supervision of Financial Institutions

The ongoing supervisory oversight of Financial Institutions is mainly conducted through the analysis of the relative reporting submissions received on a quarterly basis. Inspection exercises are carried out in line with the supervisory cycle. During 2015, the MFSA carried out one focused visit to a Financial Institution with the aim of addressing governance issues.

#### Quality Assurance within Banking Supervision

The supervision of both significant and less significant institutions requires overall mechanisms to ensure that the SSM approach to supervision remains consistent and of the highest quality across all supervised entities. The aim of quality assurance is to assess the consistent application of the common methodological framework and to ensure that it is complied with. Quality Assurance monitors the quality of supervisory practices. SSM's DG Micro-Prudential Supervision IV is responsible for monitoring the quality of JSTs while each NSA is responsible for the quality of supervision of LSIs. The MFSA has also taken steps towards setting up a Quality Assurance function to monitor SSM related processes.

#### Supervision of Trustees and other Fiduciaries

Supervision of trustees, fiduciaries and administrators of private foundations under the Trusts and Trustees Act, was carried out through a mix of on-site inspections and thematic reviews. The number of on-site inspections at authorised trustees was 12 while thematic reviews at 60 trustees were also carried out.

A Thematic Review Questionnaire was designed focussing specifically on the governance structure of authorised trustees and other fiduciaries, with the aim of verifying the extent to which selected companies have proper governance structures in place. Following the receipt of data from authorised persons, an extensive desk-based review of information provided was undertaken. This included a review of the key areas of operation including an assessment of the internal controls in place. Based on the outcome of the desk-based review, the Authority conducted a number of on-site compliance visits and/or meetings with Directors during the year.

On 30<sup>th</sup> December the Authority issued a circular to inform all authorised trustees and fiduciaries of its findings in relation to [i] the business plan; [ii] directors; [iii] committees; [iv] conflicts of interest policy; [v] assessment of risk; [vi] professional indemnity insurance; [vii] staff; [viii] record keeping; [ix] business continuity plan and [x] outsourcing. The Authority encouraged authorised persons to consider carefully the findings and to undertake an assessment of their company's current position to ensure that where necessary remedial action was taken in a timely manner.

#### Infringements and Penalties

A number of new investigations into possible breaches of licence conditions were initiated during the year, while others continued from the previous year. These included investigations into alleged breaches of investment restrictions; failures in the submission of statements; failures in complying with the conditions of registration; as well as investigations into sales practices.

During 2015, the MFSA also carried out investigations in relation to ten Collective Investment Schemes, two investment service providers and two fund managers. These investigations were triggered by various factors including breaches of standard licence conditions, requests for information by other regulators, investor complaints or third party complaints.

The assistance of Information and Communication Technologies Unit was also sought in a number of investigations. In one case the SMSU also sought the assistance of the German Federal Financial Supervisory Authority (BaFin) to carry out an investigative compliance visit in Germany.

A number of penalties were imposed during the year. These concerned various breaches of licence conditions as well as infringements under the Investment Services Act, the Malta Financial Services Authority Act, the Insurance Intermediaries Act and the Insurance Business Act.

On 8<sup>th</sup> July 2015, the Authority imposed an administrative penalty of €1,000 plus a daily penalty €50 and an administrative penalty of €500 plus a daily penalty of €25 on International Insurance Brokers Ltd for breaching two provisions of the Insurance Intermediaries Act (Cap. 487). The total administrative penalty amounted to €11,775.

On 31<sup>st</sup> August 2015, Smart Insurance Brokers Limited was suspended from the Brokers List on regulatory grounds. This was done in terms of the powers conferred under article 16(b) of the Insurance Intermediaries Act (Cap. 487).

On 8<sup>th</sup> October 2015, the Authority directed Mr Alan Kentish not to hold any directorship, senior managerial and, or executive roles within STM Malta Trust and Company Management Limited and STM Malta Insurance Management Limited for a period of one year from the date of its decision. The decision was taken in terms of article 48(2)(a) of the Trusts and Trustees Act (Cap. 331), article 51(5) of the Special Funds (Regulation) Act (Cap.450), and article 54 of the Insurance Intermediaries Act (Cap. 487). Mr Kentish voluntarily resigned as director of STM Malta Trust and Company Management Limited and STM Malta Insurance Management Limited and from his appointment as a registered insurance manager of the latter company. The MFSA's regulatory measure was not connected with any licensable activities being carried on by the aforementioned company.

On 30<sup>th</sup> October 2015, the MFSA cancelled the Category 1A investment services licence of Cosmic Financial Services (Malta) Limited, after identifying a series of regulatory breaches. Cosmic Financial Services (Malta) Limited is no longer licensed to offer/provide investment services in or from within Malta.

On 14<sup>th</sup> December 2015, the MFSA suspended the collective investment scheme licence of JFP Investments (SICAV) plc in respect of JFP Emerging Europe Momentum Fund after the Scheme was found to be in breach of a number of standard licence conditions. On 15<sup>th</sup> January 2016, the Scheme submitted an appeal before the Financial Services Tribunal.

The Supervisory Council was assisted by the Legal Unit on various regulatory issues and investigations and in the drafting of documentation in connection with these matters. Details on the administrative penalties and other sanctions issued by the MFSA may be found on the Authority's website (<http://www.mfsa.com.mt/pages/AdministrativeMeasuresPenalties.aspx>). Details of all pending appeals before the Financial Services Tribunal at the end of the year are included in Appendix VII.

## ENFORCEMENT

The Enforcement Unit reviewed 36 new enforcement cases and continued to review 7 cases carried forward from previous years. The majority of new cases dealt with non-licence holders. Only six of the cases reviewed dealt with licence holders. Half of the cases dealt with the possible promotion of financial services without a licence. Eight cases were related to fraudulent activity or scams and six were related to unregistered Corporate Services Providers. The Unit also investigated one case dealing with binary options and three cases of licence holders which were in breach of the licence conditions.

During the year the Enforcement Unit issued four warnings to the public concerning fraudulent or doubtful provision of financial services. These were all published on the MFSA's website. Following investigations in a further case, a report about unlicensed activities was lodged with the police. Details of the warnings issued by the MFSA may be found on the Authority's website: (<http://www.mfsa.com.mt/pages/announcements.aspx?id=3>).

### Prevention of Money laundering

Following discussions with the Financial Intelligence Analysis Unit (FIAU), the Authority took on responsibility for the supervision of Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) compliance by financial services licence holders, including trustees and CSP. This work is carried out on behalf of the FIAU and the main purpose is to monitor the level of compliance by financial services holders with the applicable AML/CFT laws, regulations and FIAU Implementing Procedures. By the end of the year the Enforcement Unit had carried out nine joint inspections with the supervisory units and eight joint inspections with the FIAU.

The Unit continued to be a point of reference for AML/CFT matters within the MFSA. Advice and assistance were provided to MFSA staff on AML/CFT matters. This includes the consideration of money laundering suspicions and the submission of Suspicious Transaction Reports (STRs) to the FIAU. Three STRs were submitted to the FIAU in 2015.

The MFSA also received and processed 12 Court Attachment and Investigation Orders and 72 freezing orders, and provided related replies to the court, the police and the Attorney General's Office. Ten notices containing AML/CFT related information and guidance were issued, published on the MFSA website and circulated to licence holders.

The MFSA also continued to provide technical assistance and expertise to the FIAU, particularly in the implementation of the MONEYVAL recommendations resulting from the 4th round AML/CFT Mutual Evaluation Report.

The Enforcement Unit also provided due diligence information to the MFSA's authorisation and supervisory units as requested from time to time. In this respect, the Unit handled 858 internal due diligence requests during the year.

### **International Sanctions**

The MFSA is a member of the Sanctions Monitoring Board established by the Sanctions (Monitoring Board) Regulations of 2006, issued in terms of the National Interest (Enabling Powers) Act (Cap 365). The primary function of the Board is to monitor the adherence to regulations made under the National Interest (Enabling Powers) Act, while also ensuring compliance with Malta's commitments under international law. In 2015, the MFSA followed 142 documents issued by the European Union, the United Nations Security Council and the Maltese Government concerning sanctions against various countries and regimes. These instruments can be accessed from: <http://www.mfsa.com.mt/pages/viewcontent.aspx?id=446>

### **Reporting on Frozen Assets**

In line with the Member States' reporting obligations under EU legislation and other international commitments, the Unit from time to time compiles information on the frozen funds held by local financial institutions. During 2015, the Unit prepared Frozen Assets Reports on Iran for onward transmission to the EU on a quarterly basis.

### **Whistleblowing**

In 2015, the MFSA reviewed two cases which were brought to its attention in terms of the Whistleblower Act.

### **Admissions to Listing**

Following review by the Listing Committee of applications for admissibility to listing, the Listing Authority approved the admissibility to listing on the MSE of five corporate bond issues, two equity issues, four Malta Government Stock issues and one note issue. The Listing Authority also approved the admittance to listing on the EWSM of seven asset-backed securities, one bond issue and one note issue.

### **Prevention of Financial Markets abuse**

The MFSA is responsible for safeguarding the integrity and reputation of the financial markets and enforcing the PFMA regime. The Authority monitors on and off-exchange trading in financial instruments admitted to the MSE for possible suspicious trading.

During 2015, the MFSA completed eight preliminary reviews and 14 full reviews. At the end of the year, the Authority had one pending PFMA review. 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.

### **Central Bank of Malta–MFSA Domestic Standing Committee**

The Domestic Standing Committee (DSC) is made up of senior representatives of the MFSA, the CBM and the Ministry for Finance (MFIN). The main topics discussed during the year were included the implementation of BRRD into Maltese law, and the changes that this will bring to the local recovery and resolution framework. Other topics of a crisis management nature were also discussed.

### **Crisis Management Task Force (CMTF)**

The CMTF is composed of technical experts representing the MFSA, the CBM, the MFIN and the Attorney General's office. Due to the transposition of the BRRD and related legislation, the CMTF only met two times during the year. However, given the changes in the legislation it was decided to plan for a crisis simulation exercise, the main objective of which is to test some of the important crisis management procedures laid down in the Domestic Crisis Management Framework (DCMF), most notably the national crisis Contingency Plan, and to test cooperation and coordination across domestic authorities.

## **CONDUCT OF BUSINESS**

A new Unit, the Conduct Supervisory Unit (CSU) was added to the supervisory framework of the MFSA on 1<sup>st</sup> January 2015. The Unit oversees the conduct-related business practices of licensed entities. The CSU operates a pre-emptive supervisory regime aimed at addressing potential or emerging risks for financial services consumers, as well as an operational regime focusing on strengthening the responsibilities of regulated entities in treating customers fairly. The Unit is also directly responsible for supervision of trustees and other fiduciaries authorised under the Trusts and Trustees Act, as well as the supervision of CSPs.

As regards conduct of business, the MFSA has decided to adopt a staggered approach. The remit of the Unit is initially be limited to the conduct supervision of investment firms, insurance undertakings, insurance intermediaries and credit institutions to the extent that the latter offer structured deposits as a product. The remit will subsequently be extended to cover other types of licence holders.

A draft Conduct of Business Rulebook was prepared in 2015. This Rulebook sets out the regulatory requirements of the abovementioned regulated persons insofar as their conduct vis-à-vis their clients, is concerned. The MFSA consulted the industry on certain parts of the draft rulebook and it is envisaged that the other parts will be published for consultation in 2016.

### **Structure of the Unit**

The Unit is composed of two main teams, the Financial Promotion and Risk Assessment Team and the Supervisory Team. The Financial Promotion and Risk Assessment Team is tasked with monitoring the promotional activities of the regulated entities to ensure compliance with regulatory requirements. The team aims to identify potential risks arising from certain activities of regulated persons and trends in market practices and recommend measures to address these risks.

This team also feeds its findings to the Supervisory Team so that the latter can raise any issues with the regulated persons by means of focussed visits or other appropriate means. The findings of the Financial Promotion Team could also lead to Thematic Reviews relating to particular aspects in the promotion of financial services and products (such as the manner in which disclosures are made and the medium of advertising used).

The Supervisory Team is responsible for recommending and implementing supervisory actions relating to the conduct of business of investment and insurance firms and for the direct supervision of trusts, trustees, fiduciaries and CSPs. The duties of this team include onsite visits and meetings with regulated persons. The sub-team responsible for the supervision of trusts, trustees, fiduciaries and company service providers was operational by the end of the year. It is envisaged that the other functions related to the investment firms and insurance entities will be in operation by the end of 2016.

The CSU will be utilising the following supervisory tools at its disposal:

- a. Thematic Reviews*
- b. Focussed visits*
- c. Broad scope onsite visits*
- d. Meetings with Board of Directors and*
- e. Mystery Shopping.*

Thematic Reviews are the core tool which the CSU will be using in order to assess the current market conditions including current or possible emerging risks. These reviews are designed to verify the extent to which selected regulated persons have proper and robust structures and procedures in place to mitigate these risks. These reviews will be structured through extensive desk-based reviews of information combined with on-site visits where required. The reviews will allow the Authority to identify and address risks as they emerge thereby minimising negative outcomes for the consumers and markets should these risks materialise.

Focussed Visits will be held at the premises of the regulated person to focus on a particular aspect of that person's operations (for example, sales processes, governance issues, record keeping).

Broad Scope On-site Visits will also be carried out at the premises of regulated persons and will mainly involve an assessment of systems and procedures in the light of ongoing and new regulatory requirements. These visits focus on all the aspects relating to conduct of the regulated persons falling within the remit of the CSU.

Meetings with the Board of Directors of regulated persons will be held to ensure that they are aware of their regulatory obligations and to address any "high level" concerns which the MFSA may have in the operation of the regulated entities. The purpose of these meetings is to further instil a compliance culture at the very top of the regulated person's corporate structure and to ensure that this trickles down to all employees.

CSU considers mystery shopping to be a useful way of bridging the gap between supervisory reports submitted by the regulated persons to the Authority and information it receives from consumers. The Unit will provide general feedback on the outcome of its mystery shopping exercises to the relevant market segment and will include examples of good and poor market practice. In case of serious concerns and breach of regulations, the issues will be taken up directly with the respective regulated person.

## FINANCIAL STABILITY AND MACRO-PRUDENTIAL SUPERVISION

### **Joint Financial Stability Board (JFSB)**

The JFSB was established in pursuance of Recommendation ESRB/2012/2 of the European Systemic Risk Board (ESRB) which required the setting up of a structure for cooperation among national authorities on matters impacting financial stability, including macro-prudential policy. The Board is chaired by the Deputy Governor of the Central Bank of Malta responsible for financial stability, and is composed of members from the Central Bank and the MFSA. The Governor of the Central Bank, the MFSA Chairman and the Minister of Finance also participate in the meetings of the Board.

The JFSB held four meetings during the year and discussed matters related to the formulation of macro-prudential policy and measures to strengthen resilience in the various sectors making up the financial system. The operational aspect related to the implementation of potential policy measures emanating from the CRR/CRD package were a recurrent feature in the Board agenda for the year. This included the consideration of various technical studies related to the countercyclical capital buffer, the capital conservation buffer and the O-SII buffer, leading to the following measures being implemented.

## **CRD/CRR Capital Requirements**

### ***The Capital Conservation Buffer***

In March 2015, following the publication of the MFSA Banking Rule 15 (BR/15), which among others transposed the CRD IV provision on the Capital Conservation Buffer (CCB), the Authority issued guidance to credit institutions on the coming into force of this buffer. Article 129 of the CRD requires institutions to maintain a CCB apart from the regulatory minimum Common Equity Tier 1 requirement. This entails additional Common Equity Tier 1 capital of 2.5 per cent of total risk exposure, calculated in accordance with Article 92(3) of the CRR on an individual and consolidated basis. Article 160 of the CRD sets a transitional period, from 1<sup>st</sup> January 2016 to 31<sup>st</sup> December 2018, during which Member states, including Malta, are to phase in the CB at an annual interval of 0.625% of risk weighted assets (RWAs) with effect from 1<sup>st</sup> January 2016, reaching a final level of 2.5% of RWAs on 1<sup>st</sup> January 2019.

### ***The Countercyclical Buffer***

The countercyclical buffer is a capital buffer with a limit of 2.5 per cent of risk weighted assets designed to smoothen cyclical patterns in the financial cycle. The methodology for adoption by Malta was approved by JFSB and a notification was sent to the ECB during 2015. In this respect, following the direction of the JFSB, the CBM set the countercyclical buffer rate to 0% given the subdued risk in the local credit cycle at present. This buffer is reviewed on a quarterly basis.

### ***Other Systemically Important Institutions (O-SII)***

In November, the MFSA and the CBM issued a consultation document on the methodology for the identification of O-SIIs and the related capital buffer calibration. The consultation put forward a proposed framework for the development and application of the O-SII buffer to strengthen the resilience of the domestic financial system. This instrument is designed to increase the loss-absorbing capacity of institutions that are deemed of high systemic relevance, buttressing further the system from institution-specific (including moral hazard) and sector-wide shocks. Following consultations in December, the Authorities published a decision designating Bank of Valletta p.l.c., HSBC Bank Malta p.l.c. and Mediterranean Bank as O-SIIs. The EU Commission and the ECB were notified accordingly.

## **ESRB Recommendations**

The JFSB also monitored the implementation of a number of ESRB Recommendations, including the follow-up to Recommendations ESRB/2011/1 on Lending in Foreign Currencies; ESRB/2011/2 on US dollar denominated funding of credit institutions; and ESRB/2011/3 on the macro-prudential mandate of national authorities as well as the implementation of Recommendation ESRB/2013/1 on intermediate objectives and instruments of macro-prudential policy and Recommendation ESRB/2013/2 on funding of credit institutions.

## **Financial Stability**

During 2015, the Regulatory Development Unit (RDU) focussed its attention on the build-up of the MFSA's capacity to monitor financial stability developments and associated risks in the financial sector at the micro-level, complementary to the financial stability remit of the CBM at a macro-level. The MFSA has continued working on a long-term early warning capability for systemic risks based on data collected in the course of the micro-prudential supervisory process. A risk assessment tool has been developed during the year which is designed to underpin the surveillance function of the unit. The first phase of the tool design focused on macro-economic data as well as Banking and Insurance indicators. It is envisaged that subsequent iterations of the tool would expand its scope into shadow banking and interconnectedness within the financial system.

Apart from strengthening its quantitative risk analysis, the MFSA has also sought to enhance its qualitative systemic risk analysis, through dedicated internal structures designed to enhance coordination and information sharing amongst its supervisory units. In this respect, an internal risk assessment working group has been set up within the MFSA made up of members from each Supervisory unit and chaired by the RDU. This working group is specifically tasked to identify current/potential systemic risks to individual or groups of domestically significant institutions within each sector of supervision (securities, insurance business, banking and conduct). The working group has developed an internal questionnaire which is filled in by each supervisory unit every quarter, which takes a holistic approach to risk assessment

based on the views of the supervisory units. The information provided within the internal survey provides ongoing input to the macro-risk assessment process.

The Supervisory Council is also holding dedicated quarterly meetings on financial stability with the assistance of the working group.

## RECOVERY AND RESOLUTION FRAMEWORK

The Recovery and Resolution Regulations (RRR) were published in September of 2015 as part of the transposition of the BRRD (Directive 2014/59/EU). Besides providing a legal framework for dealing with problematic institutions, this framework provides for a number of new measures and initiatives, such as the introduction of resolution tools, the need for recovery and resolution plans as well as early intervention measures.

Changes were enacted to the Malta Financial Services Authority Act in order to establish the Resolution Authority, the Resolution Committee and the Resolution Unit whose structures are used to administer and implement the RRR. These structures will be working closely with the Single Resolution Board, which is the EU Resolution Authority.

As part of the setting up of the local resolution framework, a national financing arrangement was created so as contribute towards the funding of the Single Resolution Fund (SRF). Certain elements related to the functioning of the SRF, namely the transfer of the contributions collected by the national resolution authorities to the Fund and the mutualisation of the financial resources available in the national compartments, are regulated in an Intergovernmental Agreement (IGA) between the participating Member States. The IGA complements the SRM Regulation and is in consonance with the aim and objectives of the Regulation. Parliament approved this agreement in November 2015.

By 31<sup>st</sup> December 2015, every institution was required to provide the Authority with a provisional recovery plan in line with the relevant EBA Guidelines. Category 3 Investment Services Licence Holders were also informed of their obligations under Section A of Schedule 1 to the RRR by letter dated 8<sup>th</sup> October 2015. Licence Holders who consider that any of the obligations prescribed in the aforementioned are not applicable to them were required to provide a justified reason for non-compliance.

A comprehensive exercise was also undertaken to calculate and collect the contributions at the local level. This involved building the model to calculate the contributions based on the Commission Delegated Regulation (EU) 2015/63. The MFSA engaged with local banks to describe the process involved. The process went smoothly and all payments were received by the required deadline of the 31<sup>st</sup> December 2015.





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# LEGISLATIVE & REGULATORY DEVELOPMENTS

## OVERVIEW

### EU Developments

One of the important EU developments this year was the launch in February of the European Commission's Green Paper on Building a Capital Markets Union<sup>10</sup> (CMU). The CMU is the European Union's response to international economic circumstances and is aimed at creating deeper and more integrated capital markets across the Union. The initiative continues to build on the financial stability objectives of the Banking Union to create a more integrated, more resilient European economy.

Later in the year the Commission published the 'Action Plan on Building a Capital Markets Union'<sup>11</sup>, an important document that translates the CMU into a range of initiatives aimed at removing barriers to investment and strengthening the link between savings and growth.

Implementation of the Action Plan picked up momentum in the last quarter of the year at which time the MFSA also became actively involved in the various discussions taking place within the relevant EU institutions. This included participation in the European Council Working Party discussions on the proposed Securitisation Regulation which was published at the same time as the Action Plan<sup>12</sup>.

The proposed new securitisation regime is one of the major initiatives underpinning the CMU and seeks to promote the integration of EU financial markets, help diversify funding sources and unlock capital, making it easier for credit institutions and lenders to lend to households and businesses in the EU. The draft Regulation is accompanied by other proposed legislation amending Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms<sup>13</sup> (the "CRR Amending Regulation"). The Council's position on these proposals was adopted on 2<sup>nd</sup> December 2015 and form the basis of discussions due to take place in the European Parliament in 2016.

The new Prospectus Regulation is another major building block in the establishment of the CMU<sup>14</sup>. A revamped prospectus regime will make it easier and cheaper for smaller companies to access the capital markets. It should also simplify the process for all types of issuers and provide a more investor-friendly medium for retail investors. Other CMU initiatives, including a review of the European Venture Capital Funds ("EuVECA") and European Social Entrepreneurship Funds ("EuSEF") Regulations, a public consultation on covered bonds in the EU and a call for evidence on the regulatory framework affecting the financing of the European economy are also expected to come to a head in 2016.

The process towards the implementation of the CMU is therefore well underway and is expected to provide unlimited scope for the development of sound products and stable infrastructures through which the relevant objectives may be attained. The MFSA will continue to monitor these developments closely to ensure that the local financial sector is well-positioned to benefit from this emerging scenario.

<sup>10</sup> COM/2015/063 final

<sup>11</sup> COM(2015)468 final

<sup>12</sup> Proposal for a Regulation of the European Parliament and of the Council laying down common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation and amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU and Regulations (EC) 1060/2009 and (EU) No. 648/2012, published on 30 September 2016 - COM/2015/0472 final - 2015/0226 (COD)

<sup>13</sup> COM(2015)0473 final

<sup>14</sup> Proposal for a Regulation of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading, published on 30 November 2015 - COM(2015) 583 final - 2015/0268 (COD)

## Local Developments

Developments on the local scene were characterised by an intensive programme of legislative activity, implementation of EU legislation and updates to various regulatory frameworks.

As outlined in Appendix IV, the Authority conducted 12 consultation exercises and issued six feedback statements during the year. These related to aspects of local regulation as well as transposition of EU regulation, and concerned developments in all areas of supervision.

In terms of the MFSA Act<sup>15</sup>, one of the MFSA's functions is advising the Government generally on the formulation of policies and legislation in the field of financial services.

The Authority contributed to the issue of six Acts of Parliament in the course of the year. These included changes to the Banking Act and the MSFA Act related to the implementation of the CRD<sup>16</sup> and the BRRD<sup>17</sup>. 57 Legal Notices were published in terms of various financial laws falling within the Authority's area of competence. A list of the relevant Acts of Parliament and subsidiary legislation published in 2015 is included in Appendix I to this Report.

The MFSA is also empowered to regulate, monitor and supervise financial services in Malta and to issue Rules to that effect. The Authority issued 10 Rules during the year, among them a Banking Rule dealing with capital buffers of credit institutions, a Financial Institutions Rule dealing with security of internet payments by credit, payment and electronic money institutions, and an Insurance Rule on phasing-in measures for the implementation of Solvency II. A full list of Rules that were published during the year is reported in Appendix II.

The above measures were further supplemented by a number of MFSA Circulars providing additional information to relevant categories of licence holders. A full list of Circulars is featured in Appendix III of the Report.

## CRD IV, CRR

One of main areas of focus this year was the finalisation of transposition and implementation of CRD IV<sup>18</sup> and the CRR<sup>19</sup>. This work was accompanied by various communications issued by the Authority during the year.

The relevant Banking (Amendment) Act (Act X of 2015) and related subsidiary legislation<sup>20</sup> on the supervisory review process, penalties and investigatory powers, European passport rights and CRR implementing measures were published in the Government Gazette between 10<sup>th</sup> and 14<sup>th</sup> April 2015.

Banking Rules BR/12 and BR/16 came into force on 1<sup>st</sup> January 2015. Banking Rule BR/12 on the Supervisory Review Process of Credit Institutions authorised under the Banking Act, transposes in part provisions of the CRD IV and, inter alia, makes reference to the relevant Regulatory/Implementing Technical Standards (R/ITS) and Guidelines published

<sup>15</sup> Cap. 330 LOM

<sup>16</sup> Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49

<sup>17</sup> Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council

<sup>18</sup> Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC

<sup>19</sup> Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012

<sup>20</sup> LN 127 of 2015, Banking Act (Supervisory Review) Regulations, 2015; LN 128 of 2015, Banking Act (Capital Adequacy) (Revocation) Regulations, 2015; LN 129 of 2015 European Passport Rights for Credit Institutions, Regulations, 2015; LN 130 of 2015, CRR (Implementing and Transitional Provisions) Regulations, 2015; LN 131 of 2015, Administrative Penalties, Measures and Investigatory Powers, Regulations, 2015; LN 134 of 2015, Banking Act – Notice of Coming into force of Supervisory Consolidation Regulations, 2014

during the year. Credit institutions are also required to adhere to any other relevant Regulatory/Implementing Technical Standards (R/ITS) and Guidelines, as well as any other relevant EU legislation which may be issued from time to time.

Banking Rule BR/16 of 2014 on funding plans for credit institutions authorised under the Banking Act adopts the requirements prescribed in the Guidelines on harmonised definitions and templates for funding plans of credit institutions under Recommendation A4 of the Recommendation of the European Systemic Risk Board of 20<sup>th</sup> December 2012 on funding of credit institutions (ESRB/2012/2).

Banking Rule BR/15 of 2015 on Capital Buffers of Credit Institutions authorised under the Banking Act was published on 27<sup>th</sup> January 2015. Banking Rule BR/15 transposes, in part, Chapter 4 of Title VII of CRD IV and is supplemented by Directive No. 11 on Macro-prudential Policy of the Central Bank of Malta (the CBM Directive). Chapter 4 of Title VII of the CRDIV binds credit institutions to maintain a capital conservation buffer and an institution-specific countercyclical capital buffer. The capital conservation buffer will, subject to the transitional periods prescribed in the Rule, apply with effect from 1<sup>st</sup> January 2016.

On 1<sup>st</sup> December 2015 the MFSA also issued a circular informing credit institutions that an institution-specific countercyclical capital buffer will, subject to any transitional periods prescribed in the relevant MFSA Rule and CBM Directive, come into effect on 1<sup>st</sup> January 2016 in accordance with Article 440 of the CRR. Credit institutions identified as O-SIIs by the Authority and the Central Bank in accordance with the CRR, were also informed that they will be required to maintain an O-SII buffer with effect from 1<sup>st</sup> January 2016.

Several other circulars relating to the implementation of COREP and FINREP reporting requirements were issued during the year. These included circulars on the submission supervisory returns and funding plans issued on 27<sup>th</sup> February, 22<sup>th</sup> April and 5<sup>th</sup> June 2015. Credit institutions were also informed of the obligation to report information relating to Additional Monitoring Metrics (AMM) both on a solo and consolidated basis, as applicable.

On 20<sup>th</sup> April 2015, the Authority issued a circular on the conditions under which credit institutions may seek approval to include interim or year-end profits in their Common Equity Tier 1 capital in accordance with Article 26(2) of the CRR, while an additional circular on reporting related to additional liquidity monitoring metrics was issued on 22<sup>nd</sup> July.

By means of a new circular issued on 14<sup>th</sup> October 2015 the Authority confirmed that the new Liquidity Coverage Ratio Requirement (the 'LCR requirement') emanating from the Delegated Act on Liquidity<sup>21</sup> was set at 60% with effect from 1<sup>st</sup> October 2015, 70% from 1<sup>st</sup> January 2016, 80% from 1<sup>st</sup> January 2017 and 100% from 1<sup>st</sup> January 2018.

On 20<sup>th</sup> October 2015, credit institutions were informed of the understanding reached between the ECB and the NCAs including the MFSA on the recognition of withdrawable central bank reserves as Level I assets when calculating the LCR in accordance with the Commission Delegated Regulation (EU) No. 2015/61.

On 10<sup>th</sup> November 2015 the Authority issued a temporary decision in relation to variable remuneration for the Financial Year 2015. After taking note of submissions received from the industry and in the absence of any further guidance from the ECB or the EBA, the Authority instructed credit institutions to adopt a threshold in their application of the variable pay in instruments and deferral requirements. The Authority stressed that credit institutions were still expected to comply with the provisions of the CRD IV in respect of remuneration requirements.

<sup>21</sup> *Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions.*

## Banking Recovery and Resolution Directive

Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council ['BRRD'] came into force on 1<sup>st</sup> January 2015.

The Directive provides the rules for the resolution of banks and large investment firms in all EU Member States. These cover a comprehensive set of measures which ensure that:

- banks and authorities prepare adequately for any crises that may arise;
- national authorities have the necessary tools to intervene in a timely manner in an institution to address any developing problems;
- a harmonized set of resolution tools and powers are available for the national authorities to be able to take action when bank failure cannot be avoided;
- competent authorities effectively cooperate when dealing with the failure of a cross-border bank; and
- banks contribute to resolution financing arrangements to support the costs of restructuring.

The BRRD was transposed into Maltese law through:

- Act XXI of 2015 which amends various financial services laws, including the MFSA Act [Cap. 330], the Investment Services Act [Cap. 370] and the Banking Act [Cap. 371], and provides for the establishment of a Resolution Authority and a Resolution Committee in line with the Directive, and
- Act XXXIV of 2015, to regulate the Participation within the SRF and granting of financial support under the SRM Act, 2015, which authorises the Government of Malta to enter into the agreement on the transfer and mutualisation of contributions to the SRF during the transitional period before the entry into force of the SRM Regulation. Act XXXIV also provides for the entering into of financial or other agreements or arrangements with the participants of the SRM.

Act XXI of 2015 was further supplemented by the following regulations:

- the Investment Services Act (Re-organisation and Winding Up) Regulations, 2015,
- the MFSA Act – Recovery and Resolution Regulations, 2015; and,
- the Credit Institutions (Re-organisation and Winding Up) (Amendment) Regulations, 2015.

On 17<sup>th</sup> September 2015, the Authority issued a circular to credit institutions and investment firms highlighting the requirements prescribed in Article 17B(4) of the Banking Act and SLC 1.39 of Part BI of the Investment Services Rules for Investment Services Providers binding every institution to have a recovery plan in place for the restoration of the financial situation thereof following a significant deterioration. The objective of the recovery plan is to identify the actions that might be available to counter those factors that could prompt a crisis and to assess whether such actions are robust enough. These assessments are carried out through the simulation of a wide range of shocks of different natures. Credit institutions and investment firms were also referred to the applicable Guidelines and Technical Standards issued by the EBA in this regard.

By letter addressed to the compliance officers of all Category 3 Investment Services Licence Holders dated 8<sup>th</sup> October 2015, the Authority referred Licence Holders to the full obligations prescribed in Section A of Schedule 1 to the RRR.

Where Licence Holders consider that any of the obligations prescribed in the aforementioned Section are not applicable to them, they are required to provide a justified reason for non-compliance.

### **Deposit Guarantee Schemes “Recast” Directive**

Directive 2014/49/EU of the European Parliament and of the Council of 16<sup>th</sup> April 2014 on deposit guarantee schemes<sup>22</sup> (aka “Recast Directive”) was published in the Official Journal of the EU on 12<sup>th</sup> June 2014 and came into force upon publication. The Directive aims to ensure the stability of the banking system whilst ensuring the protection of depositors. It confirms and maintains the €100,000 threshold applicable to all aggregated accounts at the same bank. Deposits by the same depositor in different banks all benefit from separate protection.

The Directive was followed up with the publication of a new set of Depositor Compensation Scheme Regulations<sup>23</sup> which came into force on 4<sup>th</sup> December 2015, replacing the Depositor Compensation Scheme Regulations of 2003.

### **Markets in Financial Instruments Directive II [MiFID II] & Markets in Financial Instruments Regulation [MiFIR]**

The MiFID II legislative package consists of two new legislative instruments namely:

- Directive 2014/65/EU of the European Parliament and of the Council of 15<sup>th</sup> May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU [“MiFID II”]; and
- Regulation No. 600/2014 of the European Parliament and of the Council of 15<sup>th</sup> May 2014 on markets in financial instruments and amending Regulation (EU) No. 648/2012 [“MiFIR”].

Both MiFID II and MiFIR aim at regulating the provision of services for investments in financial instruments and the operation of regulated financial markets. To this end, they provide the legal framework governing the requirements applicable to investment firms, regulated markets and data reporting services providers. The transposition deadline for MiFID II is 3<sup>rd</sup> July 2016.

During the period under review, the Authority planned and worked on the transposition of the provisions of MiFID II which will, to a certain extent, impact the Financial Markets Act together with the Regulations issued thereunder, the Investment Services Act together with the Regulations issued thereunder, and the Investment Services Rules.

On 6<sup>th</sup> May 2015, the Authority issued for consultation the first three chapters of its proposed new Conduct of Business Rulebook. These chapters relate to Disclosure [Chapter 1], Product Governance [Chapter 2] and Conflicts of Interest [Chapter 3]. The proposed Rulebook inter alia transposes provisions of MiFID II in relation to the conduct obligations relating to investment firms. The consultation ran till 10<sup>th</sup> July 2015.

In a circular to the industry dated 22<sup>nd</sup> December 2015, the Authority drew the attention of licence holders to ESMA's publication of its the Final Report on the Guidelines on complex debt instruments and structured deposits in MiFID II and its Final Report on the assessment of knowledge and competence. Both documents will be applicable with effect from 3<sup>rd</sup> January 2017.

During the period under review, ESMA published the following documents relating to the MiFID II Package:

- Final Report on the draft Technical Standards on authorisation, passporting, registration of third country firms and cooperation between competent authorities [ESMA/2015/1006] published on 29<sup>th</sup> June 2015;
- Consultation Paper on draft Implementing Technical Standards (ITS) under MiFID II [ESMA/2015/1301] published on 31<sup>st</sup> August 2015, seeking views on three draft ITSs required under MiFID II relating to: [i] the suspension and

<sup>22</sup> [http://eur-lex.europa.eu/legal-content/EN/TXT/ELX\\_SESSIONID=LGXzT1DfQ27pndYzH3VdbF0VDTCQFLTLdCcK4hrLgpnvP2j2y73Y!-723717633?uri=uriserv:OJ.L\\_.2014.173.01.0149.01.ENG](http://eur-lex.europa.eu/legal-content/EN/TXT/ELX_SESSIONID=LGXzT1DfQ27pndYzH3VdbF0VDTCQFLTLdCcK4hrLgpnvP2j2y73Y!-723717633?uri=uriserv:OJ.L_.2014.173.01.0149.01.ENG)

<sup>23</sup> L.N. 383 of 2015

removal of financial instruments from trading on a trading venue; [ii] the notification and provision of information for data reporting service providers; and [iii] the weekly aggregated position reports for commodity derivatives, emission allowances and derivatives thereof.

Final Report on Draft Regulatory and Implementing Technical Standards for MiFID II/MiFIR [ESMA/2015/1464] published on 28<sup>th</sup> September 2015, dealing with technical standards on transparency (Standards 1-5), market microstructure (Standards 6-12), data publication and access (Standards 13-16), requirements applying on and to trading venues (Standards 17-19), commodity derivatives (Standards 20 and 21), market data reporting (Standards 22-25), post-trading (Standard 26) and investor protection (Standards 27 and 28).

## **Solvency II**

Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) comes into force on 1<sup>st</sup> January 2016.

The period under review saw the commencement of the Solvency II phasing-in (Article 308a of the Solvency II Directive) which foresaw that, from 1<sup>st</sup> April 2015 onwards, the supervisory authorities would have the power to decide on the approval of ancillary own funds, undertaking-specific parameters, the adoption of full or partial internal models and group internal model, establishment of special purpose vehicles and the use of the matching adjustment.

EIOPA also further supplemented Solvency II through the publication of the following documents:

- The first set of Solvency II Guidelines was published on 2<sup>nd</sup> February 2015. Subsequently, Commission Implementing Regulation (EU) 2015/498 of 24<sup>th</sup> March 2015 laying down implementing technical standards with regard to the supervisory approval procedure to use undertaking-specific parameters in accordance with Directive 2009/138/EC of the European Parliament and of the Council was published in the Official Journal of the European Union on 25<sup>th</sup> March 2015. This Implementing Regulation lays down technical standards with regards to supervisory approval procedures for [a] undertaking-specific parameters; [b] ancillary own funds; [c] matching adjustment; [d] special purpose vehicles; [e] internal models and [f] joint decision on group internal models. The Implementing Regulation came into force on 26<sup>th</sup> March 2015;
- The second and final set of ITS was submitted to the Commission on 30<sup>th</sup> June 2015. These have not yet been adopted by the European Commission.
- On 29<sup>th</sup> June 2015, EIOPA published a note entitled "Need for high quality public disclosure: Solvency II's report on solvency and financial condition and the potential role of external audit [EIOPA-BoS-15-154]". This note tackles the issue of transparency and the requirement to publically disclose essential information on their solvency and financial condition.
- On 9<sup>th</sup> March 2015, the Authority launched a consultation exercise on Quantitative Reporting Requirements under Solvency II, which ran till 15<sup>th</sup> April 2015. This consultation referred to the requirement of insurance and reinsurance undertakings to complete a set of National Specific Templates ('NSTs') in fulfilment of the Pillar III requirements under Solvency II together with the compilation of the Quantitative Reporting Template. Subsequently, on 11<sup>th</sup> November 2015, the Authority issued a circular in relation to the said consultation and proceeded to issue the final Quarterly and Annual NSTs after having considered all the feedback submitted by stakeholders.

On 25<sup>th</sup> March 2015, the Authority issued a note for information on the reporting requirements covered by the Business of Insurance Statements ('BoIS') under Insurance Rule 12 of 2007. In order to reduce the reporting burden on the undertakings falling within the Preparatory Period thresholds and to maximise the efficiency of time and resources for all undertakings, the Authority gave such undertakings the option either to submit the full set of BoIS templates or a subset of such templates as indicated in the circular.

The Insurance Business (Phasing-in) Regulations, 2015 were published on 8<sup>th</sup> April 2015. These Regulations sought to create a legal basis which permits the Authority to decide on approvals or permissions on various items/matters as

set out in regulations 3 and 4 thereof, in anticipation of Solvency II. All the provisions of the regulations with the exception of regulation 4 came into force on 1<sup>st</sup> April 2015. Regulation 4 became applicable with effect from 1<sup>st</sup> July 2015. The Regulations provide that decisions taken by the MFSA on applications submitted by authorised insurance or reinsurance undertakings for approval or permission of items/matters prescribed in regulations 3 and 4 shall not be applicable before 1<sup>st</sup> January 2016.

During the period under review, the Authority also issued various circulars and notes for information addressed to the insurance industry. These are briefly outlined in Table 10:

**Table 10: Circulars issued in 2015 and addressed to the Insurance industry**

<b>Date of Issue</b>	
11 <sup>th</sup> February 2015	Circular on Solvency II for Insurance and Reinsurance Undertakings: In this circular the Authority provided information to be taken into consideration as part of the preparation for Solvency II. The circular dealt with Solvency II Group Reporting Requirements, Solvency II Preparatory Period deadlines, Ring-fenced Funds reporting under Solvency II for PCCs, Tool for Undertaking and the calculation of restricted own funds.
25 <sup>th</sup> March 2015	Note for Information on the reporting requirements covered by the BoIS under Insurance Rule 12 of 2007 during the Solvency II Preparatory Period
25 <sup>th</sup> March 2015	Note for Information announcing the availability of a web portal for use by Insurance and Reinsurance Undertakings to be used when submitting all future Solvency II related reporting templates electronically, under both the current Preparatory phase and also under the Solvency II regime; and the quarterly Management Accounts and Audited Financial Statements from 1 <sup>st</sup> January 2016.
3 <sup>rd</sup> June 2015	Circular for Insurance and Reinsurance Undertakings providing information on the national convention adopted with regards to specific templates in the full set of Solvency II quantitative reporting templates (QRTs).
7 <sup>th</sup> August 2015	Circular for Insurance and Reinsurance Undertakings on the completion of the Solvency II Quantitative Reporting Templates.
22 <sup>nd</sup> October 2015	Circular for Insurance and Reinsurance Undertakings on main reporting deadlines applicable to all the Insurance and Reinsurance undertakings ("solo undertakings"); all ultimate parent insurance or reinsurance undertakings, insurance holding companies and/or mixed financial holding companies that are subject to group supervision ("groups"), pursuant to Article 216(1) of the Solvency II Directive and as referred to in the draft Insurance Business (Supervision of Insurance and Reinsurance Undertakings in a Group) Regulations as published on the MFSA's website on the 13 <sup>th</sup> of October 2015.
3 <sup>rd</sup> November 2015	Circular for Insurance and Reinsurance Undertakings on the full Solvency II XBRL Taxonomy package.
30 <sup>th</sup> November 2015	Circular for Insurance and Reinsurance Undertakings on the Solvency I Final Submission and the Solvency II Day 1 reporting.
22 <sup>nd</sup> December 2015	Circular for Insurance and Reinsurance Undertakings on the publication of new Insurance Rules addressed to authorised Insurance and Reinsurance Undertakings.

Source: Malta Financial Services Authority



## PRIIPs Regulation

Regulation (EU) No. 1286/2014 of the European Parliament and of the Council of 26<sup>th</sup> November 2014 on key information documents for packaged retail and insurance-based investment products [the 'PRIIPS Regulation'] was published in the Official Journal of the European Union on 9<sup>th</sup> December 2014. It came into force on 29<sup>th</sup> December 2014 and will be applicable in all the Member States of the European Union with effect from 31<sup>st</sup> December 2016.

On 4<sup>th</sup> February 2015, the Authority issued a circular on the publication of the PRIIPS Regulation. This provided an overview of the Regulation, including obligations. The Authority is currently assessing the initiatives needed to provide further information to the industry and to ensure that it is fully prepared once the Regulation becomes applicable.

PRIIPs consist of a range of investment products which are marketed to retail investors and take a variety of legal forms. Typically they combine exposures to multiple underlying assets and are designed to deliver capital accumulation over a medium- to long-term investment period. PRIIPs can be broadly classified into four groups: investment funds, insurance-based investment products, retail structured securities and structured term deposits.

The PRIIPs Regulation mandates the European Supervisory Authorities [ESMA, EBA, EIOPA] to develop draft Regulatory Technical Standards on the content and presentation of the Key Information Document for PRIIPs, thereby providing retail investors with 'retail investor friendly' information on the relevant investment product in the interests of greater transparency. A first discussion paper seeking views from stakeholders was issued in 2014.

During the period under review, the Joint Committee of European Supervisory Authorities issued the following documents:

- Technical Discussion Paper on Risk, Performance Scenarios and Cost Disclosures in the Key Information Documents for Packaged Retail and Insurance-based Investment Products [JC DP 2015 01] published on 23<sup>rd</sup> June 2015. This consultation ran till 17<sup>th</sup> August 2015.
- Draft Regulatory Technical Standards with regard to presentation, content, review and provision of the key information document, including the methodologies underpinning the risk, reward and costs information in accordance with the PRIIPs Regulation [JC 2015 073] published on 11<sup>th</sup> November. This Consultation Paper follows the general Discussion Paper (JC/DP/2014/02) which was published on 17<sup>th</sup> November 2014, and a Technical Discussion Paper (JC/DP/2015/01) published on 23<sup>rd</sup> June 2015. The Consultation runs till 29<sup>th</sup> January 2016.

## UCITS V

Directive 2014/91/EU<sup>24</sup> ['UCITS V'] amending Directive 2009/65/EC was published in the Official Journal of the European Union on 28<sup>th</sup> August 2014 and came into force on 17<sup>th</sup> September 2014. The transposition deadline for Member States to adopt the provisions thereof and ensure compliance has been set at 18<sup>th</sup> March 2016. A grandfathering provision has been included for the benefit of those UCITS or UCITS fund managers who had appointed as depositary an institution which did not meet the requirements prescribed in UCITS V. In any such case, a 'compliant' depositary will have to be appointed before 18<sup>th</sup> March 2018. UCITS V covers depositary functions, manager remuneration policies and sanctions. The changes being introduced by UCITS V are intended to enhance investor protection, increase the degree of harmonisation in the application of UCITS rules by regulators, and align the rules to a greater degree with those applicable under the AIFMD<sup>25</sup>.

In view of the March 2016 transposition deadline, the Authority set up an Internal Working Group for the purpose of transposing the provisions of the Directive. In this regard, on 3<sup>rd</sup> December 2015, the Authority launched a consultation

<sup>24</sup> Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities as regards depositary functions, remuneration and sanctions

<sup>25</sup> Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers [hereinafter referred to as 'AIFMD']



exercise on the proposed transposition of the UCITS V Directive. The Authority is proposing to transpose the provisions of the UCITS V Directive as follows:

Minor amendments to the Investment Services Act in relation to the applicable sanctions together with the issue of 'ad hoc' regulations to deal with penalties and sanctions;

- 'Ad hoc' regulations to make provision for custodians of all Collective Investment Schemes namely the Investment Services Act (Custodians of Collective Investment Schemes) Regulations;
- Amending regulations to the Investment Services Act (Control of Assets) Regulations;
- Amending regulations to the Investment Services Act (UCITS Management Company Passport) Regulations;
- Specific amendments to the Investment Services Rules

The consultation process runs till 15<sup>th</sup> January 2016. The Authority is expected to take stock of the submissions received and will issue a feedback statement in due course.

### **European Long Term Investment Funds Regulation [ELTIFs]**

Regulation (EU) 2015/760 of the European Parliament and of the Council of 29<sup>th</sup> April 2015 on European Long-Term Investment Funds [the 'ELTIFs Regulation'] came into force on 8<sup>th</sup> June 2015. It became directly applicable in all Member States on 9<sup>th</sup> December 2015.

The ELTIFs Regulation aims at boosting European long-term investments in projects, undertakings and infrastructure whether in the EU or in third countries. It builds on the provisions of Directive 2011/61/EU of the European Parliament and of the Council of 8<sup>th</sup> June 2011 on Alternative Investment Fund Managers [the 'AIFMD']. ELTIFs are open to both professional and retail investors, although additional safeguards are provided for retail investors, including limitations on the aggregate investment amount by a retail investor and ad hoc warnings.

The ELTIFs Regulation is directly applicable in all Member States. The direct application of this Regulation in Malta will be further supported by the Investment Services Act (European Long-Term Investment Funds) Regulations which provide the Authority with the powers necessary for its proper implementation, including the power to supervise compliance with the ELTIF Regulation on an ongoing basis and the power to issue any investment services rules as may be deemed fit. The Regulations will be published in the Government Gazette during the first quarter of 2016.

### **Financial Conglomerates**

During the period under review, the Authority also implemented Commission Delegated Regulation (EU) 342/2014 of 21<sup>st</sup> January 2014 supplementing Directive 2002/87/EC of the European Parliament and of the Council and Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the application of the calculation methods of capital adequacy requirements for financial conglomerates. The Regulation specifies the technical principles and technical calculation methods listed in Annex I to the Directive for the purposes of the alternatives to deduction referred to in Article 49(1) of the CRR Regulation and for the purposes of calculating own funds and supplementary capital adequacy requirements as provided for in Article 6(2) of the Directive. The technical principles and technical calculation methods listed in Annex I to the Directive have been transposed in the First Schedule to the Financial Conglomerates Regulations<sup>26</sup>.

<sup>26</sup> L.N. 182 of 2013 as amended

## CREDIT AND FINANCIAL INSTITUTIONS

Guidelines issued by the EBA on the Security of Internet Payments, became applicable to all credit and financial institutions providing payment services through the internet with effect from 1<sup>st</sup> August 2015. The Guidelines established a set of minimum requirements on the security of internet payments for payment service providers operating in terms of the Payment Services Directive (Directive 2007/64/EC). The Guidelines were reflected in a new Financial Institutions Rule, FIR/04 of 2015, on the Security of Internet Payments of Credit, Payment and Electronic Money Institutions.

On 26<sup>th</sup> August 2015, the Authority notified financial institutions of the creation of a web portal for the submission of supervisory data so as to facilitate the transmission of data from licence holders to the Authority. Financial institutions were also required to start reporting the relevant statutory and prudential data through the portal as from quarter ending September 2015.

A revised Banking Rule BR/01/2013 on Application Procedures and Requirements for Authorisation of Licences for Banking Activities under the Banking Act and Financial Institutions Rule FIR/01/2011 on Application Procedures and Requirements for Authorisation of Licences under the Financial Institutions Act were published on 20<sup>th</sup> October 2015 following the adoption of a new Personal Questionnaire Form for directors and senior officers of regulated entities. The revised Rules came into force on 1<sup>st</sup> December 2015.

## INSURANCE AND PENSIONS

### **Insurance and Insurance Intermediaries**

During the period under review, the Authority focused its resources on the transposition and implementation of Solvency II in the Insurance Business Act, the Regulations issued thereunder as well as the Insurance Business Rules.

On 12<sup>th</sup> February 2015, the Authority issued for consultation proposals for the amendment of Insurance Rule 32 of 2014 on Reinsurance Special Purpose Vehicles for the purpose of extending the application of this Rule to include other information which is required to be submitted to the Authority for supervisory purposes. The Consultation ran till 12<sup>th</sup> March 2015. The Authority is currently evaluating the feedback received in relation to this consultation.

On 17<sup>th</sup> February 2015, the Authority announced the publication of the revised Insurance Intermediaries Rule 15 of 2007 on the Business of Insurance Intermediaries Statements. The changes relate mainly to the introduction of new Forms 12, 13 and 14 captured under Part E of the Rule dealing with Additional Details. The purpose of these changes is to ensure that enrolled persons provide a summary of the salient features of the audited Financial Statements, specifically the Income Statement, Remuneration details and the Statement of Financial Position. This is intended to facilitate collation by the Authority of the Annual Statistics pertaining to insurance agents, insurance brokers and insurance managers. The Authority also announced the launch of a new web portal to enable enrolled persons to submit the Business of Insurance Intermediaries Statements electronically.

On 7<sup>th</sup> July 2015, the Authority announced the publication of Insurance Intermediaries Rule 1 of 2007 on Own Funds of Persons Enrolled in the Agents List, Managers List or Brokers List Carrying out Insurance Intermediaries Activities. The amendments to this Rule aim at: (a) allowing corporate insurance intermediaries to include capital contributions as one of the components making up their own funds and (b) clarifying the definition of the term “annual gross premiums receivable”. The revised Rule came into force upon publication.

The revised Insurance Rule 15 of 2008 on “Appointments and Changes of Director, Controller or Senior Manager” and Insurance Intermediaries Rule 21 of 2007 on the “Personal Questionnaire to be submitted by specific individuals” were published on 20<sup>th</sup> October 2015 following the replacement by the Authority of the Personal Questionnaire Form and the removal of the 21-day time limit for the approval of directors, senior managers, compliance officers and money laundering reporting officers. Insurance Rule 15 and Insurance Intermediaries Rule 21 together with the new Personal Questionnaire came into force on 1<sup>st</sup> December 2015.

## Pensions

The period under review saw considerable developments in the pensions sector. On 7<sup>th</sup> January 2015, the Authority issued a detailed feedback statement on the Pension Rules and Regulations issued pursuant to the Retirement Pensions Act. The Retirement Pensions Act repeals and replaces the Special Funds (Regulation) Act and the Regulations and Rules issued thereunder.

The purpose of the Regulations and the Pensions Rules issued pursuant to the Retirement Pensions Act is to supplement the legal framework for the licencing and regulation of Retirement Schemes, Retirement Funds and service providers related thereto. The Rules and Regulations also make provision for the requirement of recognition for persons carrying on back-office administrative activities and include more detailed regulatory requirements by which persons licenced or recognised under the Retirement Pensions Act are required to comply.

Legal Notices 3 to 10 of 2015, issued pursuant to the Retirement Pensions Act, were published in the Government Gazette on 6<sup>th</sup> January 2015 and came into force on the same date. These Legal Notices dealt with the revocation of the Special Funds regulations and the commencement of the Retirement Pensions Act, 2011; control of assets; defined benefit retirement schemes, European passport rights, fees, exemptions and transitional provisions relating to the new retirement pensions regime introduced by the said Act. Consequential amendments were also made to the Investment Services Act (Exemption Regulations) by Legal Notice 11 of 2015 and to the Companies Act (Investment Companies with Variable Share Capital as Retirement Schemes or Retirement Funds) Regulations by Legal Notice 12 of 2015.

The regime applicable to retirement pensions is also supplemented by the following MFSA Rules:

- Pension Rules for Occupational Retirement Schemes
- Pensions Rules for Personal Retirement Schemes
- Pension Rules for Retirement Funds
- Pension Rules for Service Providers

A Circular on the transition from the Special Funds (Regulation) Act to the Retirement Pensions Act was issued by the Authority on 23<sup>rd</sup> February 2015. The Circular was addressed to registered persons, schemes or funds registered under the Special Funds (Regulation) Act. The aim of the circular was to outline the licensing process in terms of the Retirement Pensions Act and provide guidance to licence holders during the transition process. Schemes or arrangements, retirement funds and persons registered in terms of the Special Funds (Regulation) Act had until 31<sup>st</sup> December 2015 to comply with the provisions of the Retirement Pensions Act and continue to be governed by the provisions of the Special Funds (Regulation) Act until such time as a licence is granted by the Authority pursuant to the Retirement Pensions Act.

On 14<sup>th</sup> September 2015, the Authority issued a circular on the promotion and advertising of packaged products as Pension/ Retirement Plans. The circular was addressed to Compliance Officers of insurers authorised in terms of the Insurance Business Act and of Retirement Scheme Administrators administering Personal Retirement Schemes registered under the Special Funds (Regulation) Act (Cap. 450), as substituted by the Retirement Pensions Act (Cap. 514). The circular covered advertising and promotion of certain packaged products branded as suitable for Pension/ Retirement Plans and made reference to the Personal Retirement Scheme Rules (L.N. 468 of 2014) issued under the Income Tax Act (Cap.123), as amended by Legal Notice 241 of 2015. The Authority further referred to a circular issued in March 2008 and warned licence holders to exercise due care when promoting products which are branded as suitable for pension/retirement planning. Furthermore, it emphasised that no advantage - direct or indirect - should be taken of any national debate on pensions' reform, nor should the public be misled in any way.

The revised Pension Rules for Occupational Retirement Schemes, Pension Rules for Personal Retirement Schemes, Rules for Retirement Funds and Pension Rules for Service Providers, all issued in terms of the Retirement Pensions Act, were published on 20<sup>th</sup> October 2015 following the replacement by the Authority of the Personal Questionnaire Form and the removal of the 21-day time limit for the approval of directors, senior managers, compliance officers and money laundering reporting officers. The revised Rules came into force on 1<sup>st</sup> December 2015.

## TRUSTS AND TRUSTEES

The Trusts and Trustees Act (Registration of Notaries to act as Qualified Persons) Regulations, 2015<sup>27</sup>, the Trusts and Trustees Act (Notarial Trust Deeds Registration, Conservation and Access) Regulations, 2015<sup>28</sup> and the Trusts and Trustees (Fees) Regulations, 2015<sup>29</sup> were published and came into force in January 2015.

By circular issued on 6<sup>th</sup> March 2015, the Authority informed all notaries who proposed to act as qualified persons in terms of the Trusts and Trustees Act of the requirement to submit an application to the Authority for registration to act in this capacity in accordance with the Trusts and Trustees Act (Registration of Notaries to act as Qualified Persons) Regulations.

On 2<sup>th</sup> March 2015, the Authority issued a feedback statement pursuant to a consultation issued on 12 December 2014 on the proposed introduction of regulations specifically aimed at regulating trustees of trusts for persons with disability. The proposed regulations ensure that trustees of such trusts are subject to additional duties which recognise the vulnerability of the persons who will eventually benefit under these trusts. The consultation ran until 5<sup>th</sup> January 2015. The Trusts and Trustees Act (Protected Disability Trusts) Regulations are expected to be published next year.

On 4<sup>th</sup> December 2015, the Authority issued a circular addressed to authorised trustees and other fiduciary service providers (to the exclusion of authorised administrators of private foundations) in terms of article 43 of the Trusts and Trustees Act. In this circular, the Authority reminded all authorised trustees and other fiduciary service providers of the 2-year transitory period to comply with the requirements of having a minimum capital requirement of €15,000 by 25<sup>th</sup> April 2016. The Authority also informed authorised entities that changes to their Memorandum and Articles of Association were required to be submitted to the Authority for approval by not later than 29<sup>th</sup> January 2016.

## COMPANY SERVICE PROVIDERS

The Company Service Providers (Fees) Regulations<sup>30</sup> were published in January 2015 and the Company Service Providers Act, 2013, Commencement Notice, 2015<sup>31</sup> brought the Company Service Providers Act into force.

On 13<sup>th</sup> May 2015, the Authority issued a circular addressed to the persons registered pursuant to the Company Service Providers Act for the purpose of drawing the attention of registered persons as to the date on which the Authority expects the Certificate of Compliance and the Annual Financial Return to be submitted.

## CONDUCT OF BUSINESS

1<sup>st</sup> January 2015 saw the establishment of the Conduct Supervisory Unit. The Unit was entrusted with the supervision of CSPs and trustees and was also tasked with the setting up of a regulatory framework for securing appropriate client protection in financial services through a supervisory regime that seeks address potential or emerging risks for financial services clients.

<sup>27</sup> Legal Notice 14 of 2015

<sup>28</sup> Legal Notice 15 of 2015

<sup>29</sup> Legal Notice 28 of 2015

<sup>30</sup> Legal Notice 27 of 2015

<sup>31</sup> Legal Notice 35 of 2015

The remit of the Conduct Supervisory Unit also includes the strengthening of the responsibilities of regulated persons in the fair treatment of customers. In this regard, on 6<sup>th</sup> May 2015, the Authority launched a consultation on a proposed Conduct of Business Rulebook setting out the regulatory requirements relating to regulated persons insofar as their conduct vis-à-vis their client is concerned. In the consultation exercise, the Authority sought the views of the industry on:

- i. The first three draft chapters of the Conduct of Business Rulebook addressing [a] client disclosure requirements; [b] product governance and oversight; and [c] conflicts of interest;
- ii. Regulatory approaches which the Authority proposes to adopt in relation to specific areas such as the selling of complex products, the application of the Rulebook to structured deposits, the requirement of documents to be provided to clients in Maltese and English etc.
- iii. The consultation ran till 10<sup>th</sup> July 2015. A second consultation on the second part of the Rulebook is expected to be launched during the second quarter of 2016.
- iv. On 4<sup>th</sup> November 2015, the Authority issued a circular addressed to Investment Services Licence Holders on the assessment of appropriateness and suitability of investment products or instruments as required by the Investment Services Rules.

## SECURITIES AND MARKETS SUPERVISION

Together with the initial transposition work on MiFID II as described above, the transposition of CRD IV provisions in the area of investment services and implementation of European Market Infrastructures Regulation constituted the bulk of the development work carried out in this area during the year.

### **Investment Services Providers and CRD IV**

The Authority issued a number of circulars to investment services licence holders in relation to the CRD IV Package. On 26<sup>th</sup> March 2015, the Authority drew the attention of licenced entities to Article 26(2) of the CRR on the inclusion of retained earnings as part of the own funds computation. The Authority also warned that it would be monitoring the inclusion of interim and year-end unaudited profits as part of own funds and that it would undertake random checks to ensure that Licence Holders have the necessary auditor verification on file.

On 13<sup>th</sup> May 2015, the Authority issued a circular addressed to UCITS fund managers on the inclusion of retained earnings as part of the own funds computation pursuant to Article 26(2) CRR. Subsequently, on 29<sup>th</sup> May 2015, the Authority issued a circular addressed to investment services licence holders containing further guidance with regards to the manner in which the verification of profits is to be undertaken in relation to Article 26(2)(a) of the CRR. Subsequently, on 5<sup>th</sup> June 2015, the Authority issued a second circular addressed to the investment services industry on the regulatory technical standards (RTS) on Common Equity Tier 1 instruments, emanating from Article 28 of the CRR. The Authority recommended that investment services licence holders ensure that their CET 1 instruments are compliant with all the characteristics outlined in Article 28 of the CRR, including the conditions with respect to distributions as outlined in the RTS for own funds.

The Authority also addressed Category 3 Investment Services Licence Holders through two circulars:

on 12<sup>th</sup> November 2015, the Authority referred to Article 451(1) CRR requiring Category 3 Investment Services Licence Holders to publicly disclose information on the leverage ratio and the management of the risk of excessive leverage in the annual financial statements.

on 30<sup>th</sup> December 2015, the Authority drew attention to a new appendix to the Investment Services Rules for Investment Services Providers applicable to Category 3 Investment Services Licence Holders. This Appendix, together with the Central Bank of Malta's Directive No. 11 on Macro-prudential Policy, in part transposes Chapter 4 of Title VII of the CRD.

## EMIR

Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4<sup>th</sup> July 2012 on OTC derivatives, central counterparties and trade repositories ('EMIR') entered into force on 16<sup>th</sup> August 2012. EMIR is further supplemented by a number of Delegated Regulations which have come into force since the publication of the Regulation.

The Authority issued a communication addressed to the financial services industry drawing attention to the updated Q&A issued by ESMA in relation to the implementation of this Regulation and related technical standards. Furthermore, the Authority also encouraged the industry to participate in the consultation concerning Technical Standard No. 4 on Central Clearing of Interest Rate Swaps. This consultation exercise was the fourth in a series of consultations relating to the clearing obligation as specified under EMIR. The first three consultations focused on interest rate derivative classes, credit derivative classes and foreign exchange non-deliverable forward classes.

## AIFMD

Following a consultation exercise through which the Authority had sought feedback from the industry on the framework to be applied in relation to 'PIFs' and 'AIFs', the Authority issued a circular on 19<sup>th</sup> May 2015 wherein it indicated that, with effect from 1<sup>st</sup> June 2015, it would be adopting the policy decision that EU AIFMs would only be able to act as managers for AIFs. Furthermore, the Authority granted a one-year transitional period running till 1<sup>st</sup> June 2016 within which AIFMs would be required to ensure compliance with the new policy.

The Authority issued various clarifications on the application of the AIFMD, particularly in relation to the reporting obligations applicable to AIFMs. The first of these circulars was issued on 20<sup>th</sup> January and was followed on 10<sup>th</sup> April by the publication of an FAQ document on the reporting obligations applicable to AIFMs under Articles 3 and 24 of the AIFMD.

## Credit Rating Agencies

The CRA III Regulation<sup>32</sup> came into force on 20<sup>th</sup> June 2013. It is further supplemented by three regulatory technical standards namely:

- a. Commission Delegated Regulation (EU) 2015/3 of 30 September 2014 supplementing Regulation (EC) No 1060/2009 of the European Parliament and of the Council with regard to regulatory technical standards on disclosure requirements for structured finance instruments;
- b. Commission Delegated Regulation (EU) 2015/1 of 30 September 2014 supplementing Regulation (EC) No 1060/2009 of the European Parliament and of the Council with regard to regulatory technical standards for the periodic reporting on fees charged by credit rating agencies for the purpose of ongoing supervision by the European Securities and Markets Authority; and
- c. Commission Delegated Regulation (EU) 2015/2 of 30 September 2014 supplementing Regulation (EC) No 1060/2009 of the European Parliament and of the Council with regard to regulatory technical standards for the presentation of the information that credit rating agencies make available to the European Securities and Markets Authority.

On 6<sup>th</sup> February 2015, the Authority issued a circular to the financial services industry outlining the Third Credit Rating Agencies Legislative Package. Furthermore, it provided information on the provisions of Legal Notice 13 of 2015 entitled Over-Reliance on Credit Rating Regulations. These Regulations were issued pursuant to the Investment Services Act, the Financial Markets Act and the Retirement Pensions Act. These Regulations seek to ensure that the MFSA, taking into account the nature, scale and complexity of AIFs, UCITS and occupational retirement schemes, monitors the adequacy of the credit assessment processes of fund managers, AIFMs and the occupational retirement schemes. Furthermore, the latter service providers are required to not rely solely and mechanistically on credit ratings issued by credit rating agencies.

<sup>32</sup> Regulation (EU) No 462/2013 of the European Parliament and of the Council of 21 May 2013 amending Regulation (EU) No. 1060/2009 on credit rating agencies

### Binary Options and Forex Trading

On 14<sup>th</sup> July 2015, the Authority issued a circular to Category 3 Investment Services Licence Holders who intend carrying out binary options trading. This Circular was followed by a second circular addressed to Category 2 and 3 Investment Services Licence Holders who intend carrying out online forex trading. In both circulars, the Authority stressed that the intention was to give clear guidance to the industry on the criteria required to be satisfied by applicants for a licence as well as on certain ongoing requirements they will have to comply with. These criteria were in addition to those already applicable in terms of the Investment Services Act and the relevant subsidiary legislation and Investment Services Rules. The ongoing requirements were further updated and notified to Investment Services Licence Holders by circulars dated 30<sup>th</sup> July 2015.

### Other Developments

On 22<sup>nd</sup> May 2015, the Authority issued a revised version of the Standard Licence Conditions applicable to Collective Investment Schemes authorised to invest through loans together with a revised Q&A as an addendum to the Rules. The Q&A was aimed at providing guidance on the application of the Rules in relation inter alia to certain investment strategies and was further revised on 16<sup>th</sup> July 2015.

On 18<sup>th</sup> June 2015, the Authority published the revised versions of the Investment Services Rules for Retail Collective Investment Schemes, the Investment Services Rules for Professional Investor Funds and the Investment Services Rules for Alternative Investment Funds. The revisions consisted of the inclusion of a direct reference to CESR's Guidelines on a common definition of European Money Market Funds [CESR/10-049] as amended by the opinion published by ESMA on 22<sup>nd</sup> August 2014 (ESMA/2014/1103) with respect to the assessment of credit quality of money market instruments.

The revised Investment Services Rules for Investment Services Providers, the Investment Services Rules for Retail Collective Investment Schemes, the Investment Services Rules for Professional Investor Funds, the Investment Services Rules for Alternative Investment Funds and the Investment Services Rules for Recognised Persons were published on 20<sup>th</sup> October 2015 following the replacement by the Authority of the Personal Questionnaire Form and the removal of the 21-day time limit for the approval of directors, senior managers, compliance officers and money laundering reporting officers. The revised Rules together with the new Personal Questionnaire came into force on 1<sup>st</sup> December 2015.





# LICENSING

Despite a very challenging global economic environment in 2015, financial services in Malta have continued to expand. Significant new business was registered particularly in the banking and other related services, investment services and trust services, with the other sectors experiencing modest growth in the number of new licensed companies.

## CREDIT AND FINANCIAL INSTITUTIONS

Credorax Bank Limited upgraded its licence from a financial institution to a credit institution able to transact the business of banking in terms of the Banking Act. This brings the total number of authorised credit institutions to 28 at the end of 2015, one more than the previous year.

**Table 11: Authorised credit and financial institutions (2013 - 2015)**

	<b>Total licences at end 2013</b>	<b>Total licences at end 2014</b>	<b>Total licences at end 2015</b>
Credit Institutions	26	27	28
Financial Institutions	29	32	40
<i>Of which:</i>			
Payment Institutions	19	22	26
Electronic Money Institutions	6	7	10

Source: Malta Financial Services Authority

Nine companies were granted a financial institution licence in terms of the Financial Institutions Act (Cap. 376). EMP Systems Limited, PaymentWorld Europe Limited, and MTACC Limited were licensed to provide payment services as well as issuing electronic money. Handi.cash Limited was licensed to issue electronic money while YSG Safe Processing Limited and Money + Card Payment Institution were granted a licence to provide payment services. Petranka Beheer BV was licensed to carry on lending activities while Finco Treasury Management Limited was granted authorisation to carry on trading for own account or for account of customers in foreign exchange. KBC Euro Credit Limited was licensed to carry on lending activities, venture or risk capital, guarantees and commitments, and trading for own account in money market instruments.

## INSURANCE BUSINESS

The insurance sector continued to perform well despite the increased international economic uncertainties and challenges related to the new Solvency II framework which took effect on 1<sup>st</sup> January 2016.

Four new insurance undertakings, including one life insurance undertaking, one PCC, and one reinsurance company were authorised under the Insurance Business Act. PSA Insurance Europe Limited was authorised to carry on business of insurance in three classes of the general business while PSA Life Insurance Europe Limited was granted a license to

carry on business of insurance in one class of the long term business. The Authority issued an authorisation to Standard Re (Malta) Limited to carry on business of reinsurance in two classes of the general business.

A protected cell company, Darag Malta Insurance and Reinsurance PCC Limited, was authorised to carry on business of insurance and reinsurance in 13 classes of the general business. Two new cells were approved by the Authority to write business of insurance under the Insurance Business Act and in terms of the Companies Act (Cell Companies Carrying on Business of Insurance) Regulations, namely L'Amie Cell of Atlas Insurance PCC Limited and UIB Cell of Advent Insurance PCC Limited. This brings the total number of authorised cells in 2015 at 29 within 12 PCCs.

**Table 12: Authorised insurance undertakings (2013 - 2015)**

	<b>Total licences at end 2013</b>	<b>Total licences at end 2014</b>	<b>Total licences at end 2015</b>
Non-Life	44	45	42
Life	7	6	7
Composite	2	2	2
Reinsurance	7	7	7
<b>Total</b>	<b>60</b>	<b>60</b>	<b>58</b>

*of which:*

Affiliated	11	10	7
Protected Cell Companies (and cells)	10 (22 cells)	11 (27 cells)	12 (29 cells)
Insurers of domestic origin	9	9	8
<b>Insurers of foreign origin<sup>33</sup></b>	<b>1</b>	<b>1</b>	<b>0</b>

*Source: Malta Financial Services Authority*

QIC Europe Limited had the licence extended to carry on business of insurance and reinsurance in all classes of the general business while the Authority extended the authorisation granted to Bray Insurance Company Limited to carry on business of insurance in one additional class of the general business.

Additionally, seven insurance undertakings ceased to be authorised by the Authority in 2015.

### **Insurance Intermediaries – Companies**

In 2015, PSA Insurance Manager Limited was enrolled in the Managers List in terms of the Insurance Intermediaries Act, while STM Malta Insurance Management Limited ceased to carry on insurance intermediaries' activities. As at end 2015, there were 15 enrolled insurance managers, three of which are established as PCCs.

<sup>33</sup> Foreign insurers refer to insurance undertakings with head office outside the EU/EEA Member States and which hold an authorization under the Insurance Business Act (Cap. 403).

**Table 13: Authorised insurance intermediaries – Companies (2013 - 2015)**

	<b>Total licences at end 2013</b>	<b>Total licences at end 2014</b>	<b>Total licences at end 2015</b>
<b>Enrolled Insurance Managers</b>	<b>15</b>	<b>15</b>	<b>15</b>
Of which PCCs (and cells)	3 (2 cells)	3 (2 cells)	3 (2 cells)
<i>Enrolled Insurance Agents of:</i>			
Local Insurers	9	9	9
Foreign Insurers	11	11	11
<b>Enrolled Insurance Brokers</b>	<b>30</b>	<b>30</b>	<b>30</b>
Of which PCCs (and cells)	2 (1 cell)	2 (2 cells)	2 (3 cells)

Source: Malta Financial Services Authority

The Authority extended the licence granted to Laferla Insurance Agency Limited to act as an insurance agent on behalf of Mapfre Middlesea plc in respect of one class of the long term business. Extension of licences were authorised to Untours Insurance Agents Limited to act as an insurance agent on behalf of Mapfre Middlesea plc in respect of 14 classes of the general business and to Montaldo Insurance Agency Limited to act as insurance agent on behalf of Mapfre Middlesea Insurance plc in respect of nine classes of the general business.

The Authority granted approval for the creation of Northern Light Insurance Cell as a cell of a PCC, namely Jatco Insurance Brokers PCC Limited, which is enrolled in the Brokers List to carry on insurance intermediaries' activities.

### Registered Individuals

Article 11 of the Insurance Intermediaries Act, requires 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 out under the management of a registered person.

In 2015, four new individuals were added to the Managers Register, five to the Agents Register and ten to the Brokers Register. There were 25 individuals registered in the Managers Register, 31 individuals registered in the Agents Register and 92 in the Brokers Register at the end of 2015. In addition, 481 individuals and companies were enrolled in the Tied Insurance Intermediaries List at the end of 2015.

**Table 14: Authorised insurance intermediaries – Individuals (2013 – 2015)**

	<b>Total licences at end 2013</b>	<b>Total licences at end 2014</b>	<b>Total licences at end 2015</b>
Registered Insurance Managers	27	23	25
Registered Insurance Agents	29	28	31
Registered Insurance Brokers	83	86	92
Tied Insurance Intermediaries <sup>34</sup>	427	479	481

Source: Malta Financial Services Authority

## PENSIONS

The Authority granted registration certificates to Elmo International Retirement Plan and Novia Global Retirement Plan as retirement schemes in terms of the Retirement Pensions Act. The Authority also accepted the surrender of registration of The Falcon Plan. At the end of 2015, there were 36 registered retirement schemes, one more than the previous year.

**Table 15: Registrations in terms of the Special Funds Act/ Retirement Pensions Act (2013 – 2015)**

	<b>Total licences at end 2013</b>	<b>Total licences at end 2014</b>	<b>Total licences at end 2015</b>
Retirement Schemes	32	35	36
Retirement Funds	2	2	2
Retirement Scheme Administrators	12	14	15
Retirement Fund Administrators	1	1	1
Asset Managers	6	11	11

Source: Malta Financial Services Authority

There were fifteen retirement scheme administrators registered in 2015, one more than the previous year. The Authority issued certificates of registration to two companies, namely Elmo Pensions Limited and ITC International Pensions Limited. Abacus Corporate Services Limited ceased to be registered by the Authority in 2015.

<sup>34</sup>Includes both individuals and companies.

## SECURITIES BUSINESS

### Investment Services

Investment services again registered high levels of growth in 2015 with 22 licences issued in the various categories. As at end 2015, 149 companies were licensed to provide investment services activities in terms of the Investment Services Act, 14 more than the previous year.

**Table 16: Investment services licences (2014 – 2015)**

	2014			2015		
	<i>New licences</i>	<i>Surrendered licences</i>	<i>Total licences at end 2014</i>	<i>New licences</i>	<i>Surrendered licences</i>	<i>Total licences at end 2015</i>
<b>Category 1a</b>	4	1	<b>12</b>	2	1	<b>13</b>
<b>Category 1b</b>	1	1	<b>4</b>	1	-	<b>5</b>
<b>Category 2</b>	17	11	<b>101</b>	15	6	<b>109<sup>35</sup></b>
<b>Category 2 &amp; 4a</b>	-	-	<b>4</b>	1	-	<b>5</b>
<b>Category 3</b>	-	-	<b>9</b>	1	1	<b>10<sup>35</sup></b>
<b>Category 3 &amp; 4a</b>	-	-	<b>2</b>	-	-	<b>2</b>
<b>Category 4a</b>	-	-	<b>2</b>	1	-	<b>3</b>
<b>Category 4b</b>	1	-	<b>1</b>	1	-	<b>2</b>
<b>Total</b>	<b>23</b>	<b>13</b>	<b>135</b>	<b>22</b>	<b>8</b>	<b>149</b>

*Source: Malta Financial Services Authority*

Fifteen licences were issued at Category 2 level and included a number of UCITS Management Companies pursuant to Directive 2009/65/EC, full AIFMs and De Minimis licence holders pursuant to Directive 2011/61/EU. Category 2 licences were issued to NOVIA Management Limited, GWM Group Investment Management (Malta) Limited, Medina Asset Management Limited, Heartland Investment Management Limited, AQA Capital Limited, Framont & Partners Management Limited, Intrepid Capital Limited, INCO Capital Limited, Tendall Capital Markets Limited, Bastion Wealth Limited, Abalone Asset Management Limited, Pilatus Bank Limited, Mori Capital Management Limited, Linear Asset Management Limited and Portsea AIFM Malta Limited.

The Authority issued three custody licences, two at Category 4a level, namely to Reyl & Cie (Malta) Limited and Zarattini International Limited, and one Category 4b licence to Alter Domus Fund Services (Malta) Limited. Additionally, Zarattini International Limited was also licensed as a Category 2 investment services company.

Templar EIS Limited and Cliff Drive Capital Limited were licensed as a Category 1a investment services company while ActivYT Investment Advisory Company Limited with a Category 1b investment services licence. The Authority also issued a Category 3 investment services licence to Binary Investments (Europe) Limited to be able to trade in binary options.

There were four other companies which had their licences extended to provide additional investment services activities while another company, namely Finco Treasury Management Limited, revised from Category 2 to Category 3 licence.

<sup>35</sup> One licence was upgraded from Category 2 to Category 3.

Furthermore, four investment companies had their licence revised to act as a full AIFM, three investment companies to act as De Minimis AIFM and one investment services company to act as Maltese Management Company.

The Authority accepted the voluntary surrender of six Category 2 licences, namely to Vitesse Trading Limited, Union Capital Management Limited, Allanzia Asset Management Limited, Altruid Systems Limited, RTFX Fund Management Limited and Merit Performance Concepts Limited. The Authority also accepted the surrender of two Category 3 licences, namely to Swissquote Financial Services (Malta) Limited and RTFX Limited. The Authority also cancelled the Category 1a investment services licence of Cosmic Financial Services (Malta) Limited after identifying a series of regulatory breaches.

### Recognised Fund Administrators

The number of recognised fund administrators at the end of 2015 stood at 27. The Authority granted recognition certificate under the Investment Services Act to Finanz-Fund Services Limited. The Authority accepted also the voluntarily surrender of recognition certificate granted to HSBC Global Asset Management (Malta) Limited.

**Table 17: Investment services licences – Recognised Fund Administrators (2014 – 2015)**

	2014			2015		
	<i>New licences</i>	<i>Surrendered licences</i>	<i>Total licences at end 2014</i>	<i>New licences</i>	<i>Surrendered licences</i>	<i>Total licences at end 2015</i>
<b>Recognised Fund Administrators</b>	1	2	<b>27</b>	1	1	<b>27</b>

Source: Malta Financial Services Authority

### Collective Investment Schemes

The Authority licensed 109 new funds (including sub-funds) in 2015, of which 11 were licensed as AIFs, 78 as PIF and 20 as UCITS funds. Of these, ten licences were authorised as Incorporated Cells. The Authority also issued three Private Collective Investment Schemes recognition certificates in terms of the Investment Services Act. 35 PIF also had their licence converted to an AIF licence.

**Table 18: New and surrendered Collective Investment Schemes (including sub-funds) (2013 – 2015)**

	2014			2015		
	<i>New licences</i>	<i>Surrendered licences</i>	<i>Total licences at end 2014</i>	<i>New licences</i>	<i>Surrendered licences</i>	<i>Total licences at end 2015</i>
AIFs	-	-	6	-	11	3
PIFs	115	83	100	97	78	92
Of which ICs	9	-	8	5	10	3
Retail Non-UCITS	-	8	-	9	-	-
Recognised Private Schemes	2	-	1	-	3	-
UCITS	18	5	11	17	20	2
Of which ICs	-	-	1	-	-	-
<b>Total</b>	<b>135</b>	<b>96</b>	<b>118</b>	<b>123</b>	<b>112</b>	<b>97</b>

Source: Malta Financial Services Authority

The Authority accepted the voluntary surrender of three AIFs, 92 PIFs (of which three were licensed as Incorporated Cells), and two UCITS Funds.

### Recognised Incorporated Cells Companies

The Authority issued recognition certificate to Zeta Fund Services RICC Limited to provide incorporated cells with administrative services. This brings the number of Recognised Incorporated Cell Companies to five at the end of 2015. Ten new Incorporated Cells were licensed during 2015 while three ceased to be licensed by the Authority.

**Table 19: Recognised incorporated cell companies (2014 - 2015)**

	<b>2014</b>			<b>2015</b>		
	<i>New licences</i>	<i>Surrendered licences</i>	<i>Total licences at end 2014</i>	<i>New licences</i>	<i>Surrendered licences</i>	<i>Total licences at end 2015</i>
<b>Recognised Incorporated Cell Companies</b>	-	-	4	1	-	5
<b>Incorporated Cells</b>	9	5	15	10	3	22

Source: Malta Financial Services Authority

### Trust Services

Over the course of 2015, the Authority issued nine new authorisations in terms of the Trusts and Trustees Act, five more than the previous year. DCTS (Malta) Limited and Vassiliades & Co (Malta) Limited were authorised to provide fiduciary services which do not include acting as trustee. HBM Trustees Limited and JTC Trustees (Malta) Limited were authorised to act as a trustee and to provide other fiduciary services, including acting as an administrator of private foundations. Finco Trust Services Limited was authorised to act as a trustee or co-trustee, to provide fiduciary services and to act as administrators of private foundations. IG Trustee Limited was authorised to provide trustee or co-trustee services while Aqua Trust Services Malta Limited was authorised to act as a trustee or co-trustee and to act as an administrator of private foundations. Quinton Trust (Malta) Limited was authorised to provide trustee and other fiduciary services while War Chest Fiduciary Services Limited to act as an administrator of private foundations. The Authority extended the authorisation granted to Sovereign Trust (Malta) Limited to be able to act as an administrator of private foundations.

**Table 20: Authorised trustees, nominees and trusts (2013 – 2015)**

	Total authorisations at end 2013	Total authorisations at end 2014	Total authorisations at end 2015
Authorisations in terms of the Trusts and Trustees Act (Trustees/ Fiduciary Service Providers/ Administrators of Private Foundations)	140	142	148
Nominees <sup>36</sup>	19	16	13
Trusts registered in terms of the Trust Act <sup>36</sup>	115	89	71

Source: Malta Financial Services Authority

The authorisation of licences for trusts and nominees came to an end with the coming into force of the Trusts and Trustees Act in 2005. These licences continued to be phased out and 13 nominees and 71 trusts remained registered in terms of the Trust Act (1988) as at the end of 2015.

## COMPANY SERVICE PROVIDERS

In 2015, the Authority issued registration certificates in terms of the Company Service Providers Act to 58 companies or individuals, bringing the total number of registrations to 67 by the end of 2015.

**Table 21: Company Service Providers (2014 - 2015)**

	Total registrations at end 2014	Total registrations at end 2015
Registrations in terms of the Company Service Providers Act	9	67

Source: Malta Financial Services Authority

## Listing Authority

In 2015, the Listing Authority granted approval to listing on the MSE to two equity issues, five corporate bond issues, four Malta Government Securities, one note issue and five funds.

Furthermore, the Listing Authority approved the admittance to listing on the EWSM of four asset backed securities, one bond and one convertible callable bond.

<sup>36</sup> 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

During 2015, eight securitisation vehicles gave notice of commencement of business to the MFSA in terms of Article 18 of the Securitisation Act. These were AMAGIS SCC PLC, Algebris Limited, Al Jowf Limited, Al Qibla Limited, Blue Sec plc, InvestCapital Malta Limited, Presco Investments Limited and Primus Global Securities Investment SCC plc. Additionally, the Authority issued an acknowledgment in terms of Regulation 22 of the Securitisation Cell Company Regulations to Algebris Cell, a cell created by Primus Global Securities Investment SCC plc.

**Table 22: Notifications in terms of the Securitisation Act (2014 – 2015)**

	<b>Total notifications at end 2014</b>	<b>Total notifications at end 2015</b>
Notified Securitisation Vehicles	10	18
Of which notified Securitisation Cell Companies (and cells)	-	2 (1)

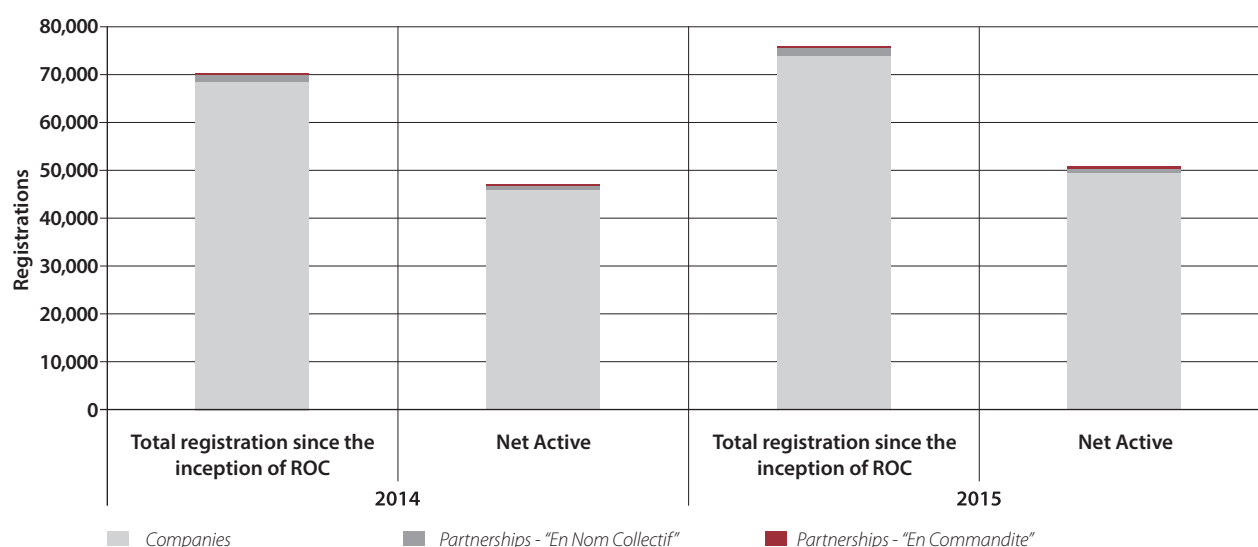
Source: Malta Financial Services Authority

## THE REGISTRY OF COMPANIES

### Total Registrations and Active Registrations

As at the end of 2015, 74,062 companies, 1,568 partnerships - "En Nom Collectif" and 127 partnerships - "En Commandite" were registered in the Registry of Companies. Active companies totalled 49,634 at the end of the year under review, an increase of eight per cent from the previous year. Additionally, 1,014 active Partnerships - "En Nom Collectif" and 127 Partnerships - "En Commandite" were registered in 2015, representing an increase of 3.6 percent and 33.7 percent respectively from the previous year.

**Chart 19: Total registrations against net active registrations (2014 – 2015)**

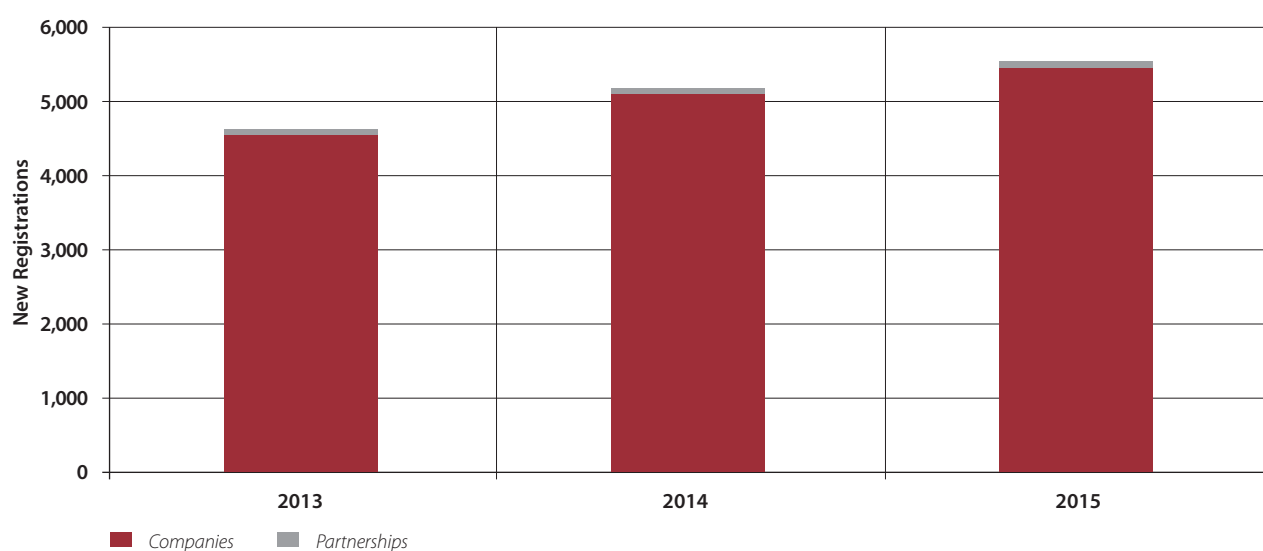


Source: Malta Financial Services Authority

## New Registrations

The number of new registered companies and partnerships continued to increase in 2015, with 5,427 companies and 88 partnerships added in the Registry of Companies. This represents an increase of seven and six percent respectively from the previous year.

**Chart 20: New registrations (2013 – 2015)**



Source: Malta Financial Services Authority

## Mergers and Liquidations

There were 299 mergers during 2015 while 1,391 companies were placed into liquidation during 2015.

**Table 23: Mergers and liquidation of companies (2013 – 2015)**

	Mergers	Total companies placed into liquidation
2013	210	1,189
2014	191	1,171
2015	299	1,391

Source: Malta Financial Services Authority

### Redomiciliation of companies

In 2015, 92 companies transferred their domicile to Malta in terms of the Continuation of Companies Regulations under the Companies Act. 72 companies (or 78 percent) transferred their domiciles to Malta from Non-EU countries with the remaining 20 companies (or 22 per cent) transferring their domiciles from EU countries.

**Table 24: Total inward redomiciled companies (2013 – 2015)**

	<i>Total redomiciled companies</i>
2013	111
2014	85
2015	92

*Source: Malta Financial Services Authority*

Table 25 represents a breakdown of the redomiciled companies registered in 2015 by type of business.

**Table 25: Breakdown of redomiciled companies in 2015 by type of business**

	<i>Number of redomiciled companies</i>
Betting/Gambling/Gaming	1
General Trading	2
Holding	45
IT Activities	1
Marketing/Promotion/Consultancy	3
Other	1
Private Investment	11
Property Activities	15
Real Estate	2
Securities	3
Shipping	8
Total	92

*Source: Malta Financial Services Authority*

During 2015, 18 companies re-domiciled outside Malta, two more than the previous year.

### New Notifications for Inward Cross-Border Services

The Authority received the following notifications from new entities through their home country regulator to passport into Malta via the freedom of services in 2015:

**Table 26: New notifications of passporting into Malta via the freedom of services (2015)**

	<i>Number of new notifications</i>
European Credit Institutions	11
European Financial Institutions	83
European Insurance Undertakings	8
European Insurance Intermediaries	219
Investment Services	140
UCITS Schemes (including sub-funds)	30
<i>EU AIFMS marketing in Malta</i>	
AIFMS	9
AIFs	14
Sub AIFs	5
<i>EU AIFMs managing AIFs or providing ancillary activities in Malta</i>	
AIFMs	19
AIFs	14
<i>EuVECAs marketing in Malta</i>	
EuVECA Managers	3
EuVECA Funds	3

*Source: Malta Financial Services Authority*

#### **New Notifications for Outward Cross-Border Services**

The Authority received the following notifications from new entities intending to passport out of Malta via the freedom of services in 2015:

**Table 27: New notifications of passporting outside Malta via the freedom of services (2015)**

	<b>Number of new notifications</b>
Credit Institutions	1
Financial Institutions	4
Investment Services	8
UCITS Schemes (including sub-funds)	20
Insurance Undertakings	3
Insurance Intermediaries	1
<i>Maltese AIFMs managing AIFs or providing ancillary activities out Malta</i>	
AIFMs	4
AIFs	5
<i>Maltese AIFMS marketing into EU</i>	
AIFMS	8
AIFs	12
Sub AIFs	6

*Source: Malta Financial Services Authority*

Moreover, one investment services company and one financial institution notified the Authority that they would be passporting out of Malta via the freedom of establishment.

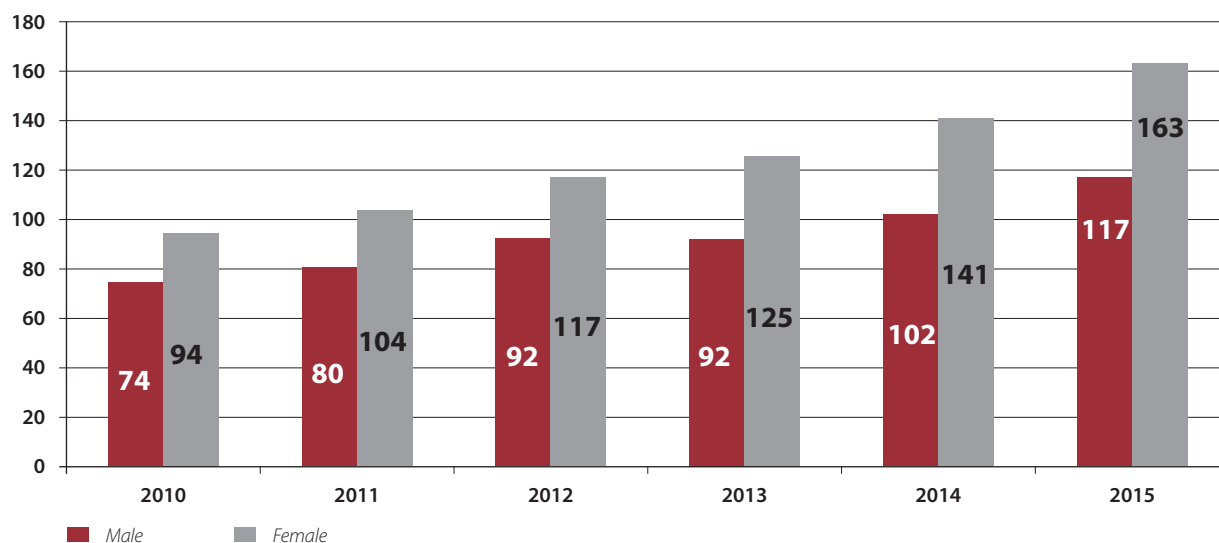


# DEVELOPMENT OVERVIEW

## HUMAN RESOURCES DEVELOPMENT

Chart 21 shows MFSA's progression on headcount and by gender, since 2009. The number of staff reached 280 as at the end of 2015.

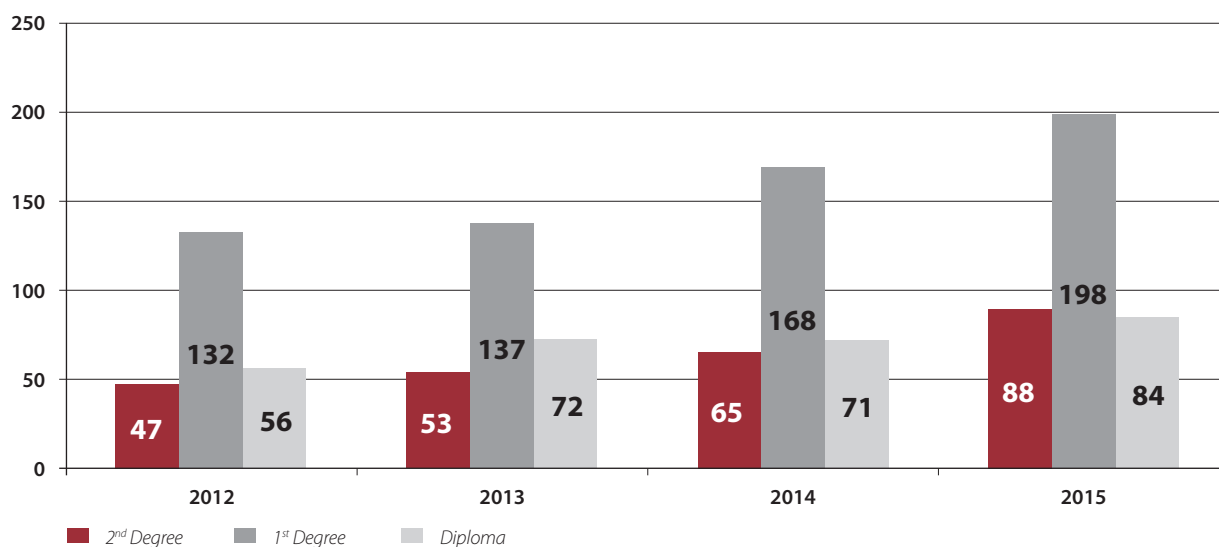
**Chart 21: MFSA Employees (2010 – 2015)**



Source: Malta Financial Services Authority

The year under review was marked by 47 new recruits and 9 terminations through resignations. While it is the policy of the Authority to undertake exit interviews in cases of resignations, the reasons provided for these resignations indicated normal trends of individual job movements.

**Chart 22: MFSA Qualified Staff (2012 – 2015)**



Source: Malta Financial Services Authority

Of the total number of staff members as at 31<sup>st</sup> December 2015, 198 held a first degree while 88 also held a post graduate degree or equivalent. In addition, 84 individuals held a diploma in a discipline related to financial services.

During the year under review the MFSA continued its commitment towards training and development of staff and industry stakeholders. This meant continuous support towards planning and organisation of staff training events, as well as extending its functions to work with other training providers vis-à-vis the facilitation of training paths for people seeking a career within the sector. During 2015, the Human Resources and Development Unit continued to play an important role in supporting the ECC.

### **Employee Training and Development**

The MFSA is fully committed to staff training and development. It fulfils such mission through its Human Resources & Development Unit, which sees to all training needs of individuals irrespective of category. Such function entails the administration and management of the Self Development Scheme - an important tool by which the MFSA offers staff members' financial support towards furthering their studies leading to relevant Diplomas/First Degrees/Post Graduate qualifications. In the process, the Human Resources and Development Unit acts as a point of reference with regard to advice and information.

A total of 57 persons were listed as following a course related to the financial services sector under the Self Development Scheme on 31<sup>st</sup> December 2015. These include: accounting, ICT related studies, actuarial techniques, insurance related disciplines, trusts and estate management and law.

In addition, a substantial number of individuals acquired further technical expertise through active participation in a range of working groups being organised by EBA, ESMA, EIOPA and the ECB.

### **Local Seminars and In-house Training**

The MFSA identifies trends required by the industry to ensure relevant and efficient operations. The Authority acts proactively by strengthening the skills of its workforce through the provision of training programmes in management, technical areas and soft-skills.

The MFSA collaborated with different training institutes on course objectives, content, methodology and delivery. Through this collaboration, the MFSA ensures that courses offered to the general public are structured and reflect the needs of the financial services sector.

During 2015, the Human Resources and Development Unit continued to provide training for MFSA staff members. These included Induction Programmes for new recruits, Leadership Skills and Strategic Planning, Security Awareness Training, On-site Supervision Inspection Training, Introduction to the World Bank/IMF Financial Services Action Programme, Insurance & Pensions training sessions on the Retirement Pensions Act, the Rules Issued Under the Retirement Pensions Act, and the Financial Requirements and Financial Reporting by Service Providers/Schemes/Funds as impacted by the New Pension Rules.

Other training initiatives co-ordinated with the industry included a seminar on Training on Private Equity Funds, by the law firm Dechert and a workshop on Reinsurance Special Purpose Vehicles Workshop carried out by Munich Re.

A training workshop for MFSA staff was also provided by the ECB's Information Management System (IMAS) Network. In addition, the MFSA nominated staff members to attend training courses/seminars/conferences held locally by other entities. In all, 250 employees attended training held by CBM, Castille Institute, University of Malta, MISCO, MII, Ernst & Young, Richard Clarke Academy, ISACA, Finance Malta, PricewaterhouseCoopers Academy, Malta Institute of Accountants, Institute for Financial Services Malta, Institute of Financial Services Practitioners, Chamber of Advocates, Society Education, Malta International Training Centre, Institute for Professional Development (Malta), Institute of Legal Studies Malta, Foundation for Human Resources Development, Malta Institute of Management, Institute of Directors,



Malta Insurance Institute, Malta Forum for Internal Auditors, and KPMG and others. Such training activities amounted to 4662 hours in 2015.

In 2015, two students from the Bundesbank University carried out a six-week duration Internship Programme at the MFSA during which time they gained experience relating to authorisation and supervision carried out by various Units.

### **Participation in the ECB's Human Resources Conference (HRC) and the Ethics Framework Task Force (EFTF)**

During 2015, staff within the MFSA's Human Resources and Development Unit attended and actively participated in the HRC's substructure Task Force on Training and Development (TFTD) and the EFTF meetings in Frankfurt.

HRC's focus has mainly been on SSM policies, which include: common travel arrangements for onsite missions, a field test for performance feedback and the launching of the SSM traineeship programme. As to the latter, in September 2015 the MFSA has entered into a Memorandum of Understanding with the ECB to host ECB trainees involved in tasks to the SSM across national competent authorities.

At the October 2015 meeting, the EFTF discussed issues related with the progress being registered by each NCA in the implementation of ethics framework regarding avoidance of conflicts of interest, prevention of misuse of inside information and acceptance of gifts, hospitality and other advantages. In this respect, the Human Resources and Development Unit of the MFSA carried out amendments to the relevant sections of the MFSA Staff Handbook to enhance the Authority's current standards and to incorporate guidelines provided by the ECB Ethics Framework.

## **EDUCATION CONSULTATIVE COUNCIL**

### **Careers in the Financial Services Sector**

The Human Resources and Development Unit acts as the Council's secretariat for the ECC in that it sees to all the necessary administration, logistics arrangements, technical support and management of activities.

During 2015, the ECC continued to honour its commitment to promote of in-service and pre-service professional training and education within the financial services sector. It collaborated with training providers in the provision of courses, identification of training gaps, promotion of careers within the industry, organisation of events and upkeep of its 'careersinfinance' website.

Moreover, the ECC maintained obligations regarding dissemination of industry-related information among secondary and post-secondary students who regularly visit the MFSA throughout their scholastic year. These visits are intended to promote careers among students within the financial services sector.

- The ECC held discussions with Consumer Complaints Unit to organise information sessions on financial literacy for primary and secondary school teachers. Following a request made to the ECC by IFS (Malta), to regulate financial advice given in Malta, the MFSA has set up an internal committee composed of representatives from the Authorisation, Conduct Supervisory, Securities & Markets Supervision and Human Resources and Development Units respectively to evaluate the proposals submitted by the IFS (Malta) on the regulation of minimum qualifications required for financial advisers. Discussions are going on between MFSA and ifs (Malta) in relation to particular terms and conditions stipulated by ifs (Malta) in their proposal regarding regulations on financial advisers, which include minimum qualifications, transitory arrangements, minimum required training hours as Continuous Professional Development (CPD) and monitoring of CPD hours;
- ECC members were honoured by the presence of the Minister of Education during their last meeting of 2015. At the meeting, the ECC Chairman Dr John Consiglio gave a short presentation on the objectives, functions, past achievements as well as current initiatives of the ECC. He stressed the importance of increased collaboration with

the Ministry of Education on educational events, particularly those relating to the financial services sector. The Hon. Minister Mr Evarist Bartolo touched on a few areas that are common to both the ECC and the Ministry. He confirmed the need for further education on financial literacy and proposed to extend the agreement that the Ministry had previously reached with the MSE to include the ECC.

- The Minister also focused on school outreaches encouraging members to provide as much information to school teachers on career opportunities within the finance industry. In this regard, reference was made to the Industry Exposure Programme for Guidance Teachers and Employment and Training Corporation Advisers which the ECC organises on a periodic basis.
- The Students' Job Exposure Programme (2014-2015) was held between November 2014 and July 2015. By this initiative, the ECC provides an opportunity to students to experience a placement of one week in a working environment provided by participating firms. A total of 38 participating firms hosted 94 students.

## INFORMATION AND COMMUNICATION TECHNOLOGIES

The Information and Communication Technologies (ICT) Unit provides services and support to all Units within the Authority and is responsible for managing technological resources efficiently. These resources include systems infrastructure equipment within the MFSA's Data Centre, numerous software applications and a variety of information systems development. The Unit also provides assistance to the Regulatory and Supervisory Units in their supervisory focus on IT security compliance and in obtaining analytical data from respective entities.

At EU level, the Unit follows and participates in a number of IT committees, expert groups, and project workgroups associated with each regulatory and supervisory sector.

### Registry of Companies Online System

The ICT Unit continued to work closely on delivering high-end software solutions and services to the Authority and its external users. This also includes the operation of the Registry of Companies Online System which has reached about 11,000 users. During 2015, new enhancements continued to be introduced to the system and a new functionality dealing with the automatic claiming of penalties incorporating e-mail notifications for late filing of Accounts and/or Annual Returns including online payment of penalties was launched. The Unit also started working on the integration of the ROC Online System with the EU Business Registers Interconnection System (BRIS). This integration is planned to be fully functional by mid-2017.

### Systems for Regulatory and Supervision

As European regulatory reporting obligations continued to increase, a lot of effort has been put in the Licence Holders Web Portal to integrate more projects within the system. At the moment this system is mainly used to handle the exchange of data between licence holders, MFSA's Supervisory Units and respective ESAs. The system is being used by more than 800 users who have submitted more than 600 returns in 2015, most of which were processed by the system itself and then uploaded to the respective ESA.

### Organisation-wide Software Systems

Existing organisation-wide software systems including the Authority's websites, micro-sites and other internal applications such as the MFSA Intranet were updated to keep abreast of emerging technologies while at the same time ensuring that information contained on all public interfacing systems properly reflected the most recent updates.

### Infrastructure Solutions

The MFSA's Data Centre houses diverse technological infrastructure thus providing the organisation with sophisticated ICT-related platforms and resources which are able to host various information systems and software solutions consequently addressing the business need of the Authority.

A number of requirement documents have been formulated in relation to upcoming projects due to equipment ageing, contract expiration and infrastructure growth. This exercise, involving intensive research and technical design, covers the area of server technologies, enterprise storage, data backup systems, uninterrupted power systems, mobile device management, multifunction printers, and other ICT related systems.

Organisation growth and strategy called for the need to reconfigure and upgrade a number of existing infrastructure systems. Financial and resource investment has been carried out on the network and telephony system, data-centre hardware, infrastructure applications, service level agreements, and other technology solutions. This brought a number of business benefits, namely; storage expansion and data retention, information security adherence, resource for additional services, manufacturer support, adaptation and compatibility to new hardware, better integration with server applications, reduced downtime and enhanced stability.

A project aimed to strengthen and enhance the security of the systems infrastructure was carried out during 2015. This entailed the replacement of aged security equipment, reconfiguration of firewall software, realignment of security systems, application updates, and a systems hardening process.

### **Service and Operations Management**

A comprehensive organisation with an autonomous ICT operation necessitates a suitable service management in order to adequately plan, deliver, operate and control ICT services. In fact, during 2015 this function was given elaborate attention and it is anticipated to expand further in the coming months. Some of the initiated services include incident management, project management, policy and procedure management.

At the same time, routine operation and maintenance kept its momentum, namely; system administration, system monitoring, preventive and corrective maintenance, service updates, architecture up-keep, facilities provisioning, user training and helpdesk support. Moreover, due to organisation growth and ever-increasing deployed technologies, the demand for service and support continues to increase. Staff trained in specialised areas is also being increased.

### **Information Security**

The Unit has carried out vast research in information security policies, procedures and guidelines aimed to be introduced at the MFSA. They are meant to strengthen information and technology governance while satisfying the demands of ESAs in relation to information security.

To enhance internal information security awareness, a specific related training was delivered to all staff. The training focused on the latest cyber threats the MFSA's employees are exposed to and delved into methods of identifying and reacting to such threats.

An intermediate vulnerability and penetration testing assessment has been carried out on the organisation's websites in an attempt to determine the security posture of such publically available services and determine the level of susceptibility to cyber-attacks.

### **Information Security Analyses**

Services are provided to the Authorisation Unit which mainly focused on the applications of prospective licensees. Information security matters are analysed to determine the risk that the submission from the prospective licensee brings. Working with the Conduct Supervisory Unit, the risks associated with licensees that decide to outsource their IT systems either locally or within other jurisdictions are listed.

Working with the Banking Supervision Unit, a detailed analysis is carried out of various management letters received by the MFSA from the external auditors of the bank in question. There is participation in meetings held by the Banking Supervision Unit and the Central Bank of Malta during the formulation of rule FIR/04. This involvement is in relation to the interpretation of the articles when it comes to Information Technology.

During the year the ICT Unit at the request of the Supervisory Units participated in a number of on-site visits, and submitted reports highlighting risks while providing recommendations for improvements. Most of the site visits were focused on the IT Risk and Governance of the IT systems, since mostly the nature of these licensees is to utilise available technology to its maximum. Furthermore, the ICT Unit was engaged in discussions and requirements to be implemented by the licensees following on site visit report. Other assignments included the services of technical assistance in obtaining analytical data from respective entities.

## COMMUNICATIONS UNIT

The Communications Unit handles the Authority's internal and external communication processes, particularly through the dissemination of relevant information and updates related to the Authority and to legislative and regulatory developments in the financial services sector. This process is enhanced by the organisation of and support to a number of events on a regular basis that seek to keep the industry abreast and in close contact with officials from the Authority.

The Unit handles relations with the local and international media, produces and distributes a number of regular and special publications and works with external bodies relevant to the Authority's statutory duties.

Through its different tasks, the Unit seeks to continuously build upon MFSA's image as a robust, innovative and effective regulator while maintaining Malta's reputation as a high- end reputable jurisdiction.

In 2015, the Unit continued to provide immediate and real-time updates to the Authority's website which remains the central point of reference covering the requirements of licence holders, researchers, journalists and other service providers. It includes updated legislation, regulation, supervisory procedures, guidance notes, alerts and warnings and is updated on a continuous basis.

The website's audience and usage has continued to grow significantly. During 2015, 148,253 unique visitors made 474,513 to the Authority's website, [www.mfsa.com.mt](http://www.mfsa.com.mt), a 3.7 per cent increase over the previous year. Users from more than 200 different countries visited the website and made more than 1.5 million page views. A quarter of these visits came from internationally-established jurisdictions, mainly the United Kingdom, the United States of America, Germany, Switzerland, Italy, and India. These numbers further reflect the wide-reaching nature of Malta as a 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.

The Communications Unit also replied to more than 900 enquires including more than 700 received through the web portal.

The Authority's significantly increased following on social media, particularly on Twitter and LinkedIn, have prompted the Unit to increase the stream of information posted. These social media tools are used to disseminate information issued by the Authority as well as to provide an update on conferences, seminars and events of interest organised or supported by the MFSA, as well as promotion of career opportunities at the Authority.

### Conferences, Seminars, Events

The MFSA continued to support a number of Conferences, Seminars and other events that were held during the year under review.

The Authority, in collaboration with Directors Chamber, organised another event in the series of Continuing Professional Development Courses, aimed at Directors of Investment Companies and Investment Funds. Top experts from Europe and the United States spoke on a variety of topics relevant to the funds industry. The workshop covered the duties of Directors, Risk Management, issues faced by Maltese structures in the United States, Overview of the Governance and Process, Accounting and Audit.



*Participants at the CPDC for Directors of Investment Companies and Investment Funds*

In December 2015, the MFSA, in conjunction with the Institute of Directors, hosted a workshop for CSPs. This year's event covered the EU's Corporate Governance Agenda. Participants were addressed by Dr Roger Barker, Director of Corporate Governance and Professional Standards at the Institute of Directors in the UK. Delegates focused on three key themes, namely cyber-security, governance in sport and charity, and, preventing scandals through enlightened governance within the existing governance frameworks.

Although the Communications Unit regularly keeps the industry updated through Circulars and Newsletter articles, specific sessions are organised with particular emphasis on developments in legislation and regulation. In 2015, practical industry updates were organised by the MFSA on the proposed Conduct of Business Rulebook, on Reinsurance Special Purpose Vehicle (RSPVs), on the Market Abuse Regulation (MAR) and the Market Abuse Directive (MAD II).

Another high-profile event in 2015 was the Opalesque 2015 Malta Roundtable, focussing on loan funds, cell companies, de minimis regime: Malta fastest growing EU fund jurisdiction. The event highlighted Malta's growth as a leading financial services jurisdiction which is cementing its name among the most reputable world financial jurisdictions. It was followed up by a detailed report of Opalesque's Roundtable Series which was published in June 2015 and covered the major interventions during the event.

Over and above, the Unit provided financial, administrative and/or logistical support to various events organised by financial services stakeholders such as the Institute of Financial Services, the Institute of Financial Services Practitioners and the Malta Institute of Management.

The MFSA also supported a number of events in 2015, including the Malta International Risk Congress (Commercial Risk Europe), The Risk & Custody Operations for Fund Managers Conference Malta - Oct 2015 (IBC Conference) and Il Mercato dei titoli a Malta (MF Servizio Editoriali).

During first week of October the MFSA participated with the Malta Association of Risk Management (MARM) and the Malta Insurance Managers Association (MIMA) in the FERMA Risk Management forum held in Venice.

Other events included UCITS & AIFMD for US managers 2015 (IIR Tax), ILS Seminar (MIMA), Cybersecurity conference (ISACA), University of Malta Masters In Accountancy Annual Conference, European Money Week (Malta Bankers Association) and a Seminar on Regulation in the UK (Malta Insurance Institute).

## Print media

During 2015, the MFSA maintained a regular presence in international media, both in terms of generic financial publications as well as specialised publications. These included Global Programmes 2015 and Cell Company Guide 2015 published by Captive Review, Captive Review's Malta Insurance Report 2015, Malta Risk & Insurance Report (Commercial Risk Europe), Hedgeweek Special Report - Malta Alternative Investment Fund Services 2015 - Developments and opportunities in Malta and a Special Reportage by Voxia. The MFSA also participated in an extensive feature and promotion of Malta produced by The Report Company and published in The Guardian.

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 as requested by editorialists and journalists, both local and foreign members of the press.

In 2014, the Authority issued through the Unit 94 Notices, 91 Circulars, more than 250 local and foreign Warnings as well as 19 Consultation Papers and Feedback Statements

The Communications Unit manages the Intranet system through which members of the staff are continuously updated with regulatory and administrative developments and day-to-day issues. The intranet service continued to expand and in 2015 the digital library was strengthened with the inclusion of a number of journals and relevant publications to assist the staff in various areas of their work, including policy development, regulatory aspects as well as emerging issues in the industry. Nearly 350 publications were added to the Library in the year under review.

Besides the digital library, during 2015 the MFSA invested in the setting up of a formal library which consists mainly of regulatory publications. This is encouraging the professional staff to keep up to date with important developments in the sector. More than fifty books have been available since the setting up of the library. During 2015, the Communications Unit, took measures to increase substantially the number of books related to financial services regulation in its library, and to disseminate among the MFSA staff such new acquisitions and their reading.

The Unit also supports the administration of the Authority's CSR and provides secretarial services to the Board of the Malta International Training Centre (MITC), a subsidiary company of the MFSA.

## CONSUMER COMPLAINTS

The Consumer Complaints Unit encompasses the role of the Consumer Complaints Manager, who is empowered by law to investigate complaints from private individuals relating to any financial services transaction in a fair and impartial manner. Recommendations made by the Consumer Complaints Manager are non-binding, however most of the times companies and consumers agree to these recommendations in order to settle a complaint amicably.

The Unit is responsible for providing consumer education and information about financial services and endeavours to promptly answer queries from the public on financial services matters in general. The Unit assists the MFSA to identify issues which may affect consumer confidence or lead to consumer detriment.

The Consumer Complaints Manager provides administrative support to, and is also the Secretary of the Compensation Schemes Management Committee which administers the Depositor Compensation Scheme and the Investor Compensation Scheme. The Consumer Complaints Manager is also the Secretary of the Protection and Compensation Fund.



## REVIEW OF COMPLAINTS

**Table 28 – Formal Complaints and Enquiries**

<b>Formal Complaints and Enquiries Table</b>										
	<i>Cases Received</i>		<i>Cases Closed*</i>		<i>Cases Pending*</i>		<i>Enquiries Received</i>		<i>Queries Received</i>	
<i>Complaints related to:</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
Banking	41	38	48	23	15	18	23	65	292	448
Insurance	34	36	35	36	10	13	31	57	601	663
Investments	38	53	94	47	109	169	43	126	378	1319
Other	11	0	3	0	5	0	14	3	459	86
<b>Totals</b>	<b>124</b>	<b>127</b>	<b>180</b>	<b>106</b>	<b>139</b>	<b>200</b>	<b>111</b>	<b>251</b>	<b>1730</b>	<b>2516</b>

Source: Malta Financial Services Authority

\* Includes cases from previous years

The number of new complaints received by the Unit over the course of the year is fairly in line with that registered in 2014.

The Unit has endeavoured to close a number of cases – mostly relating to investment-services complaints – which remained pending from previous years. However, quite a few investment-related case files remain outstanding during the year under review as the process of investigation into each complaint requires meticulous review of documentation as well as several exchanges with the complainant, the licence holder and third party entities.

There has been an improvement in the processes undertaken by some licence holders when reviewing complaints. For instance, in cases relating to banking issues, some licence holders have agreed to honour the recommendations of the Consumer Complaints Manager, sometimes at an early stage of review. Some licence holders have even accepted to compensate complainants for financial distress on recommendation of the Unit. The same cannot be said for investment-services related complaints where recommendations in favour of the complainants are, generally speaking, rejected.

Of the cases closed in 2015, about 40% of these cases were rejected by the Consumer Complaints Manager. This figure may seem high but it is in line with previous years.

Many complaints follow failure of some securities comprising investment portfolios or allegations of bad advice or mis-selling. Such cases take quite some time to mature, not least because of the need for careful analysis of the documentation provided by the investment firm. There were several cases during the year where the Unit sought meetings with staff who sold or gave advice about the investment which triggered the complaint. Yet again, from these complaints, main trends emerge which give rise to food for thought.

The worldwide ailing economic situation which has deflated interest rates to such low levels and for such a prolonged period of time has led many investors chasing yield without weighing inherent risks and rewards. Never before has portfolio diversification – or the lack of - been placed under the microscope following defaults of a number of investments, including structured and property funds, as well as firms in particular markets some of which had always been considered as doyens of good governance and forward-looking business models. Even if it was argued that no country, irrespective of its size, is immune to problems, it is with disbelief that some portfolios offered to retail investors were composed of securities which – even by simply referring to their coupon interest rate – a rough idea of the severity of their underlying risk could have easily been deduced.

It might be argued that investors who placed their savings into such investments were unaware of the underlying risks. Some investors who complained to the Unit are likely to have been savvy enough to reach such conclusion without much prodding. The problem exacerbates itself when investors rely heavily (if not exclusively) on verbal assurances of some financial advisers. Investors should not be blamed for doing so as they are not in a position to question or double-guess the advice given by financial advisers.

It might be the case that some fundamental aspects of investing have strayed along the way, even if such basics are flagged in each annual report issued by the Unit. Issues which the Unit has come across during the year under review related to investment advisory services provided over these past five years.

For instance, any loose talk of investments being relatively “risk-free” or “protected” undermines the credibility of bona fide financial advisers, indeed of the whole sector. And if documentation does not say so, then perhaps it is opportune that such important aspects are given their due prominence rather than left to the very last paragraph of an information leaflet.

One cannot fail but note that some firms simply fail to give a copy of the paperwork they require investors to sign at the time of investing. In several cases handled by the Unit, many investors claimed that they had never been given copies of the client profiles and file notes compiled at the time of investing until when they lodged their complaint with the MFSA. Or, if they were given a copy of these documents, they did not bother to read through them. Had such documentation been at their possession immediately at the time of investing, they were likely to have been made aware of the category of risk of the portfolio and perhaps even how they had been classified by the financial adviser in terms of risk attitude.

In 2015, there has been a substantial increase in the number of cross-border complaints filed with the Unit. The Unit's remit extends not only to financial firms providing services in Malta but also to firms which passport their services in the EU or offer their services via distance selling means. Naturally, the process which the Unit employs for the review of cases lodged by consumers not resident in Malta is identical to that employed for residents. It has been observed however that the issues which arise, are not normally raised in complaints submitted by residents in Malta. This is because the type and nature of services external to Malta might not be offered locally or, if offered, uptake among local consumers is low. For instance, the Unit reviewed quite a few complaints against firms providing online foreign exchange trading. The Unit is also receiving complaints relating to particular loan activities which have been provided in some jurisdictions.

The Unit has provided important feedback to the regulatory organs within the MFSA on issues which arise from complaints.

The Consumer Complaints Manager is an active member of FIN-NET, the European out-of-court network for the resolution of disputes between consumers and financial services providers. Within this network, national consumer complaint schemes assist consumers who have disputes with financial service providers based in another Member State in identifying and contacting the scheme which is competent to deal with their complaint. The Complaints Manager is also a member of the steering group which assists the European Commission in the preparation of the agenda of the two annual plenary meetings.



## CONSUMER EDUCATION

The Unit is the first port of call for a wide range of enquiries that are made by consumers on all aspects of financial services.

Its consumer portal, Mymoneybox, is perhaps the only source of impartial information about financial matters on the island. A new feature comparing interest rates on bank term deposit accounts was launched during the year.

It is active in several consumer education initiatives, such as those in the media. Staff from the Unit have also delivered information sessions at events and seminars organised by NGOs and public entities, such as Finance Malta and the MSE. It also had the opportunity to assist in the organisation of various activities during the first European Money Week, an annual initiative of the European Banking Federation, to which the Malta Bankers' Association is affiliated.

## OTHER PROJECTS

### **Payment Accounts Directive**

The Unit is responsible for the transposition of the Payment Accounts Directive (PAD). The Directive, which was published in September 2014, aims to provide consumers with the right to access payment accounts, to facilitate switching of bank accounts, and improve the transparency and comparability of payment accounts' fees.

The MFSA issued for consultation and feedback a draft list of services linked to a payment account in accordance with the requirements of article 3(2) of the PAD. Essentially, the MFSA received feedback from seven stakeholders, including the Malta Bankers' Association which represents all credit institutions in Malta. The final list that was submitted to the EBA not only reflected feedback from and/or consultation with respondents but also sought to draw from its experience of investigating several enquiries and complaints received from consumers in regard to bank fees and charges, as well as the experience gained from the compilation of the online database of bank fees and charges available on the MFSA's consumer portal "mymoneybox".

The draft regulations transposing the directive are expected to be published for consultation during the first quarter of 2016.

### **Review of bank interest and charges applied to small firms**

Along with Budget 2016, the Minister of Finance published two reports on practices employed by banks when determining interest rates for loans (drawn up by the Office of Competition, MCCA) as well as a report titled "Bank fees and charges in Malta Preliminary overview and observations" drawn up by the MFSA. Much of the contents of the latter report were sourced by the Consumer Complaints Unit. The report concludes that there is scope for reviewing particular local banking practices in regard to the manner they operate and charge their customers, and suggests areas where improvements could be achieved.



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# APPENDICES

## APPENDIX I – ACTS, LEGAL NOTICES AND GOVERNMENT NOTICES ISSUED IN 2015

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### Acts

- **Act III of 2015:** Various Laws (Prevention of Money Laundering and Funding of Terrorism) (Amendment) Act, 2015
- **Act X of 2015:** Banking (Amendment) Act, 2015
- **Act XXI of 2015:** Various Financial Services Laws (Amendment) Act, 2015
- **Act XXXI of 2015:** Companies (Amendment) Act, 2015
- **Act XXXIII of 2015:** Various Financial Services Laws (Amendment No. 2) Act, 2015
- **Act XXXIV of 2015:** Participation within the Single Resolution Fund and granting of financial support under the Single Resolution Mechanism, Act, 2015

### Legal Notices

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#### Banking Act

- Depositor Compensation Scheme (Amendment) Regulations, 2015 [L.N. 31 of 2015]
- Banking Act (Supervisory Review) Regulations, 2015 [L.N. 127 of 2015]
- Banking Act (Capital Adequacy) (Revocation) Regulations, 2015 [L.N. 128 of 2015]
- European Passport Rights for Credit Institutions Regulations, 2015 [L.N. 129 of 2015]
- CRR (Implementing and Transitional Provisions) Regulations, 2015 [L.N. 130 of 2015]
- Administrative Penalties, Measures and Investigatory Powers Regulations, 2015 [L.N. 131 of 2015]
- Banking Act – Notice of Coming into force of Supervisory Consolidation Regulations, 2014 [L.N. 134 of 2015]
- Credit Institutions (Reorganisation and Winding-Up) (Amendment) Regulations, 2015 [L.N. 298 of 2015]
- Declaration of Bank Holidays Order, 2015 [L.N. 380 of 2015]
- Depositor Compensation Scheme Regulations, 2015 [L.N. 383 of 2015]

#### Companies Act

- Companies Act (Investment Companies with Variable Share Capital as Retirement Schemes or Retirement Funds) Regulations, 2015 [L.N. 12 of 2015]
- Companies Act (Fees) (Amendment) Regulations, 2015 [L.N. 381 of 2015]
- Companies Act (Cell Companies Carrying on Business of Insurance) (Amendment) Regulations, 2015 [L.N. 391 of 2015]

#### Company Service Providers Act

- Company Service Providers (Fees) Regulations, 2015 [L.N. 27 of 2015]
- Company Service Providers Act, 2013 – Commencement Notice [L.N. 35 of 2015]

#### Financial Markets Act

- Over-Reliance on Credit Rating Regulations, 2015 [L.N. 13 of 2015]

## **Insurance Business Act**

- Insurance Business (Phasing-In) Regulations, 2015 [L.N. 120 of 2015]
- Insurance Business (Criteria of Sound and Prudent Management) (Revocation) Regulations, 2015 [L.N. 390 of 2015]
- Insurance Business (Incorporated Cell Companies Carrying on Business of Insurance) (Amendment) Regulations, 2015 [L.N. 392 of 2015]
- Insurance Business (Approved Auditor) (Amendment) Regulations, 2015 [L.N. 393 of 2015]
- Insurance Business (Companies Accounts) (Revocation) Regulations, 2015 [L.N. 394 of 2015]
- Insurance Business (Companies Carrying on Business of Affiliated Insurance) (Amendment) Regulations, 2015 [L.N. 395 of 2015]
- Insurance Business (Continuance of Companies Carrying on Business of Insurance) (Amendment) Regulations, 2015 [L.N. 396 of 2015]
- Insurance Business (Fees) (Amendment) Regulations, 2015 [L.N. 397 of 2015]
- Insurance Business (Linked Long Term Contracts) (Amendment) Regulations, 2015 [L.N. 398 of 2015]
- European Passport Rights for Insurance and Reinsurance Undertakings Regulations, 2015 [L.N. 399 of 2015]
- Insurance Business (Commission Delegated Regulation on Solvency II) Regulations, 2015 [L.N. 400 of 2015]
- Insurance Business (Exemption) Regulations, 2015 [L.N. 401 of 2015]
- Insurance Business (Long Term Business Contract Statutory Notice) (Amendment), Regulations, 2015 [L.N. 402 of 2015]
- Insurance Business (Reorganisation and Winding Up of Insurance Undertakings) (Amendment) Regulations, 2015 [L.N. 403 of 2015]
- Insurance Business (Solvency II Transitional Provisions) Regulations, 2015 [L.N. 404 of 2015]
- Protection and Compensation Fund (Amendment) Regulations, 2015 [L.N. 405 of 2015]
- Insurance Business (General Provisions of Supervision) Regulations, 2015 [L.N. 407 of 2015]
- Insurance Business (Maintenance of Assets) Regulations, 2015 [L.N. 408 of 2015]
- Insurance Business (Penalties for Offences and Infringements) (Amendment) Regulations, 2015 [L.N. 409 of 2015]
- Insurance Business (Supervision of Insurance and Reinsurance Undertakings in a Group) Regulations, 2015 [L.N. 410 of 2015]

## **Insurance Intermediaries Act**

- Insurance Intermediaries (Penalties for Offences and Infringements) (Amendment) Regulations, 2015 [L.N. 411 of 2015]

## **Investment Services Act**

- Investment Pensions Act (Exemption) (Amendment) Regulations, 2015 [L.N. 11 of 2015]
- Investment Services Act (Supervisory Review) (Amendment) Regulations, 2015 [L.N. 299 of 2015]
- Investment Services Act (Re-organisation and Winding-Up) Regulations, 2015 [L.N. 300 of 2015]

## **Malta Financial Services Authority Act**

- Financial Conglomerates (Amendment) Regulations, 2015 [L.N. 111 of 2015]
- Malta Financial Services Authority Act – Recovery and Resolution Regulations, 2015 [L.N. 301 of 2015]

## **Prevention of Money Laundering Act**

- Prevention of Money Laundering and Funding of Terrorism (Amendment) Regulation, 2015 [L.N. 77 of 2015]
- Prevention of Money Laundering and Funding of Terrorism (Amendment) Regulation, 2015 [L.N. 78 of 2015]

### **Retirement Pensions Act**

- Retirement Pensions Act, 2011 – Commencement Notice [L.N. 4 of 2015]
- Retirement Pensions (Transitional Provisions) Regulations, 2015 [L.N. 5 of 2015]
- Retirement Pensions Act (Exemption) Regulations, 2015 [L.N. 6 of 2015]
- Retirement Pensions (Control of Assets) Regulations, 2015 [L.N. 7 of 2015]
- Retirement Pensions (Defined Benefit Retirement Schemes) Regulations, 2015 [L.N. 8 of 2015]
- Retirement Pensions (European Passport Rights for Institutions for Occupational Retirement Provision) Regulations, 2015 [L.N. 9 of 2015]
- Retirement Pensions (Fees) Regulations, 2015 [L.N. 10 of 2015]

### **Special Funds (Regulation) Act**

- Special Funds (Revocation) Regulations, 2015 [L.N. 3 of 2015]

### **Trusts and Trustees Act**

- Trusts and Trustees Act (Registration of Notaries to act as Qualified Persons) Regulations, 2015 [L.N. 14 of 2015]
- Trusts and Trustees Act (Notarial Trust Deeds Registration, Conservation and Access) Regulations, 2015 [L.N. 15 of 2015]
- Trusts and Trustees Act (Fees) Regulations, 2015 [L.N. 28 of 2015]
- Trusts and Trustees (Maternity Leave Trust) Regulations, 2015 [L.N. 257 of 2015]
- Various Financial Services Laws (Amendment) No. 2, Act
- Various Financial Services Laws (Amendment No. 2) Act, 2015 – Commencement Notice [L.N. 406 of 2015]

## APPENDIX II – RULES – ISSUED AND REVISED DURING 2015

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### Banking Rules

- BR/15/2015 on Capital Buffers of Credit Institutions authorised under the Banking Act, 1994
- Financial Institutions Rules
- FIR/04/2015 on Security of Internet Payments of Credit, Payment and Electronic Money Institutions
- Insurance Business Rules
- Insurance Rule 33 of 2015 on Phasing-In Measures for Solvency II Implementation
- Insurance Rule 34 of 2015 on Repeal of Insurance Rules made under the Insurance Business Act
- Insurance Intermediaries Rules
- Insurance Intermediaries Rule 1 of 2007
- Investment Services Rules
- Investment Services Rules for Retail Collective Investment Schemes
- Investment Services Rules for Professional Investor Funds
- Investment Services Rules for Alternative Investment Funds
- Rules applicable to Collective Investment Schemes authorised to invest through loans
- Investment Services Rules for Investment Services Providers

## APPENDIX III - CIRCULARS ISSUED IN 2015

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### Anti-Money Laundering

- Circular dated 16<sup>th</sup> February 2015 addressed to Financial Services Licence Holders on the MONEYVAL public statement concerning Bosnia and Herzegovina
- Circular dated 26<sup>th</sup> February 2015 addressed to Financial Services Licence Holders on the amendments to the Prevention of Money Laundering Act
- Circular dated 2<sup>nd</sup> March 2015 addressed to Financial Services Licence Holders on the revision of the FIAU Implementing Procedures
- Circular dated 16<sup>th</sup> February 2015 addressed to Financial Services Licence Holders on the identification by the FATF of jurisdictions with strategic deficiencies
- Circular dated 16<sup>th</sup> February 2015 addressed to Financial Services Licence Holders on the MONEYVAL public statement concerning Bosnia and Herzegovina
- Circular dated 22<sup>nd</sup> April 2015 addressed to Financial Services Licence Holders on the MONEYVAL public statement concerning Bosnia and Herzegovina
- Circular dated 14<sup>th</sup> May 2015 addressed to Financial Services Licence Holders on the FIAU Annual Report
- Circular dated 9<sup>th</sup> June 2015 addressed to Financial Services Licence Holders on the Fourth Anti-Money Laundering Directive and the Revised Funds Transfers Regulation
- Circular dated 29<sup>th</sup> July 2015 addressed to Financial Services Licence Holders on the identification by the FATF of jurisdictions with strategic deficiencies
- Circular dated 2<sup>nd</sup> November 2015 addressed to Financial Services Licence Holders on the identification by the FATF of jurisdictions with strategic deficiencies
- Circular dated 21<sup>st</sup> December 2015 addressed to Financial Services Licence Holders on anti-money laundering and counter-terrorist financing

### Banking Supervision

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#### Credit Institutions

- Circular dated 23<sup>rd</sup> January 2015 addressed to Credit Institutions and Financial Institutions licensed in terms of Schedule 2 and 3 of the Financial Institutions Act on the EBA Guidelines on the Security of Internet Payments
- Circular dated 27<sup>th</sup> January 2015 addressed to Credit Institutions on Banking Rule BR/15/2015
- Circular dated 4<sup>th</sup> February 2015 addressed to the Financial Services Industry on the issue of the PRIIPs Regulation
- Circular dated 27<sup>th</sup> February 2015 addressed to credit institutions including branches on the resubmissions of COREP/FINREP templates through the MFSA Portal
- Circular dated 2<sup>nd</sup> March 2015 addressed to credit institution on the coming into force of the capital conservation buffer
- Circular dated 20<sup>th</sup> April 2015 on the conditions under which credit institutions are permitted to include interim or year-end profits in the Common Equity Tier 1 (CET1) capital
- Circular dated 22<sup>nd</sup> April 2015 addressed to credit institutions on the Supervisory Reporting Requirements Webpage and the Draft ITS on Supervisory Reporting
- Circular dated 18<sup>th</sup> May 2015 addressed to the Financial Services Industry on the Application of the Calculation Methods of Capital Adequacy requirements for Financial Conglomerates
- Circular dated 5<sup>th</sup> June 2015 addressed to credit institutions on the general reporting instructions relating to fund plans, additional liquidity monitoring metrics and revised COREP and FINREP templates

- Circular dated 20<sup>th</sup> July 2015 addressed to credit institutions on the reporting relating to additional liquidity monitoring metrics
- Circular dated 7<sup>th</sup> August 2015 addressed to credit, payment and electronic money institutions on Financial Rule FIR/04/2015
- Circular dated 26<sup>th</sup> August 2015 addressed to Financial Institutions on the submission of supervisory data through the MFSA Web Portal
- Circular dated 3<sup>rd</sup> September 2015 addressed to Credit Institutions including branches on an updated to the Supervisory Reporting Templates
- Circular dated 17<sup>th</sup> September 2015 addressed to Institutions on the submission of a Recovery Plan Document
- Circular dated 14<sup>th</sup> October 2015 addressed to Credit Institutions on LCR DA Reporting and Revised Supervisory Reporting Templates
- Circular dated 20<sup>th</sup> October 2015 addressed to Credit Institutions on the treatment of central bank reserves with regards to the Liquidity Coverage Requirement (LCR)
- Circular dated 20<sup>th</sup> October 2015 addressed to the Financial Services Industry on the publication of the revised Personal Questionnaire
- Circular dated 10<sup>th</sup> November 2015 addressed to Credit Institutions on the Variable Remuneration in respect of FY 2015
- Circular dated 1<sup>st</sup> December 2015 addressed to Credit Institutions on the disclosure of the Institution-Specific Countercyclical Capital Buffer in terms of Article 440 of Regulation No. 575/2013
- Circular dated 16<sup>th</sup> December 2015 addressed to the Financial Services Industry on the EU Regulatory Framework for Financial Services
- Circular dated 29<sup>th</sup> December 2015 on the methodology for the identification of other systemically important institutions (O-SIIs) and the related capital buffer calibration

## *Insurance and Pensions Supervision*

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### **Insurance Business**

- Circular dated 4<sup>th</sup> February 2015 addressed to the Financial Services Industry on the issue of the PRIIPS Regulation

### **Insurance Intermediaries**

- Circular dated 17<sup>th</sup> February 2015 addressed to Enrolled Persons carrying on Insurance Intermediaries Activities
- Circular dated 7<sup>th</sup> July 2015 on the amendments to Insurance Intermediaries Rule 1 of 2007

### **Pensions**

- Circular dated 23<sup>rd</sup> February 2015 addressed to registered persons, schemes or funds currently registered in terms of the Special Funds (Regulation) Act
- Circular dated 14<sup>th</sup> September 2015 on advertising and promotion of packaged products as pension/retirement plans

### **Solvency II**

- Circular dated 11<sup>th</sup> February 2015 addressed to Insurance and Reinsurance Undertakings on Solvency II
- Circular dated 12<sup>th</sup> March 2015 on Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast)
- Circular dated 25<sup>th</sup> March 2015 addressed to Insurance and Reinsurance Undertakings on the reporting requirements covered by the Business of Insurance Statements under Insurance Rule 12 of 2007 during the Solvency II Preparatory Period
- Circular dated 25<sup>th</sup> March 2015 addressed to Insurance and Reinsurance Undertakings on the new web portal for use by insurance and reinsurance undertakings
- Circular dated 8<sup>th</sup> April 2015 addressed to Insurance and Reinsurance Undertakings on the Insurance Business (Phasing-in) Regulations, 2015 and Insurance Rule 33 of 2015 on the Phasing-in measures for Solvency II implementation
- Circular dated 22<sup>nd</sup> May 2015 addressed to Insurance and Reinsurance Undertakings providing an update on the EIOPA Tool for Undertakings and an Overview of the XBRL reporting process



- Circular dated 3<sup>rd</sup> June 2015 addressed to Insurance and Reinsurance Undertakings on the national convention adopted with regards to specific templates in the full set of Solvency II Quantitative Reporting Templates
- Circular dated 7<sup>th</sup> August 2015 addressed to Insurance and Reinsurance Undertakings on the completion of the Solvency II Quantitative Reporting Templates
- Circular dated 22<sup>nd</sup> October 2015 addressed to Insurance and Reinsurance Undertakings on the main reporting deadlines
- Circular dated 3<sup>rd</sup> November 2015 addressed to Insurance and Reinsurance Undertakings on the full Solvency II XBRL Taxonomy Package
- Circular dated 11<sup>th</sup> November 2015 addressed to Insurance and Reinsurance Undertakings on the quantitative reporting requirements under Solvency II
- Circular dated 30<sup>th</sup> November 2015 addressed to Insurance and Reinsurance Undertakings on Solvency I Final Submission and Solvency II Day 1 Reporting
- Circular dated 22<sup>nd</sup> December 2015 addressed to Insurance and Reinsurance Undertakings on the publication of new Insurance Rules

## *Securities and Markets Supervision*

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### **AIFMD**

- Circular dated 20<sup>th</sup> January 2015 addressed to the Financial Services Industry on the publication of Guidelines on the Reporting Obligations applicable to Alternative Investment Fund Managers
- Circular dated 10<sup>th</sup> April 2015 addressed to the Financial Services Industry on the publication of (i) FAQs on reporting obligations applicable to Alternative Investment Fund Managers under Article 3 and Article 24 AIFMD and (ii) the updated FAQ issued by the MFSA on the AIFMD
- Circular dated 4<sup>th</sup> August 2015 addressed to the Financial Services Industry on the changes to the Investment Services Rules for Investment Services Providers

### **Collective Investment Schemes**

- Circular dated 19<sup>th</sup> May 2015 addressed to the Financial Services Industry on PIFs and AIFs
- Circular dated 22<sup>nd</sup> May 2015 addressed to the Financial Services Industry on amendments to the Rules applicable to Collective Investment Schemes authorised to invest through loans
- Circular dated 18<sup>th</sup> June 2015 addressed to the Financial Services Industry on changes to the Investment Services Rules
- Circular dated 16<sup>th</sup> July 2015 addressed to the Financial Services Industry in relation to the publication of a revised version of the MFSA's Frequently Asked Questions Document concerning the Loan Fund Rules
- Circular dated 16<sup>th</sup> October 2015 addressed to Collective Investment Schemes and Fund Managers on the Authority's thematic review on compliance with the requirements on governance, compliance and risk management

### **CRD IV**

- Circular dated 26<sup>th</sup> March 2015 addressed to Investment Services Licence Holders on an Educational clinic for Investment Firms on CRD IV Package and Other Supervisory Matters
- Circular dated 18<sup>th</sup> May 2015 addressed to the Financial Services Industry on the application of the calculation methods of capital adequacy requirements for financial conglomerates
- Circular dated 29<sup>th</sup> May 2015 addressed to Investment Services Licence Holders on the inclusion of Interim or Year-End Profits
- Circular dated 5<sup>th</sup> June 2015 addressed to Investment Services Licence Holders on the Common Equity Tier 1 (CET 1) Instruments
- Circular dated 12<sup>th</sup> November 2015 addressed to Category 3 Investment Services Licence Holders on the disclosure of the leverage ratio
- Circular dated 30<sup>th</sup> December 2015 addressed to Category 3 Investment Services Licence Holders on the capital buffers requirement applicable thereto

## EMIR

- Circular dated 22<sup>nd</sup> May 2015 addressed to the Financial Services Industry on the European Markets Infrastructure Regulation providing updates on the obligations to report to Trade Repositories and the requirement to clear through CCPs

## Financial Markets

- Circular dated 6<sup>th</sup> February 2015 addressed to the Financial Services Industry on the Third Credit Rating Agencies Legislative Package
- Circular dated 28<sup>th</sup> September 2015 on the publication by ESMA of the Opinion on Accounting for cash contributions to the Deposit Guarantee Schemes
- Circular dated 29<sup>th</sup> September 2015 on the publication by ESMA of the Consultation paper on the European Single Electronic Format
- Circular dated 28<sup>th</sup> October 2015 on the European Common Enforcement Priorities for 2015 and on improving the quality of disclosures within the financial statements
- Circular dated 17<sup>th</sup> December 2015 addressed to the Financial Services Industry providing an update on the ESMA Guidelines on Alternative Performance Measures

## Investment Services Licence Holders

- Circular dated 21<sup>st</sup> January 2015 addressed to the Financial Services Industry on changes regarding the Swiss Franc exchange rate
- Circular dated 21<sup>st</sup> January 2015 addressed to the Financial Services Industry on the latest ESMA publications in relation to investment management
- Circular dated 3<sup>rd</sup> February 2015 addressed to the Financial Services Industry on the issue of the PRIIPs Regulation
- Circular dated 13<sup>th</sup> May 2015 addressed to Investment Services Licence Holders on the inclusion of retained earnings as part of Own Funds' Computation
- Circular dated 9<sup>th</sup> June 2015 addressed to Fund Managers required to submit Financial Return 2B as part of their regulatory reporting requirements
- Circular dated 3<sup>rd</sup> July 2015 addressed to Fund Managers regarding Appendix 2B
- Circular dated 14<sup>th</sup> July 2015 addressed to applicants for a Category 3 Investment Services Licence that would like to carry out binary options trading
- Circular dated 14<sup>th</sup> July 2015 addressed to applicants for a Category 2 or Category 3 Investment Services Licence that would like to carry out online forex trading
- Circular dated 30<sup>th</sup> July 2015 addressed to applicants for a Category 3 Investment Services Licence that would like to carry out binary options trading
- Circular dated 30<sup>th</sup> July 2015 addressed to applicants for a Category 2 or Category 3 Investment Services Licence that would like to carry out online forex trading
- Circular dated 17<sup>th</sup> September 2015 addressed to Institutions on the submission of a Recovery Plan Document.
- Circular dated 1<sup>st</sup> October 2015 addressed to the Financial Services Industry on the application of the definitions in Sections C6 and C7 of Annex I of the Directive 2004/39/EC
- Circular dated 8<sup>th</sup> October 2015 addressed to Category 3 Investment Services Licence Holders on the submission of a Recovery Plan Document
- Circular dated 16<sup>th</sup> October 2015 addressed to Collective Investment Schemes and fund managers on the Authority's thematic review on compliance with the requirements on governance, compliance and risk management
- Circular dated 20<sup>th</sup> October 2015 addressed to the financial services industry on the revised Personal Questionnaire
- Circular dated 4<sup>th</sup> November 2015 addressed to Investment Services Licence Holders on the assessment of appropriateness and suitability of investment products or instruments as required by the Investment Services Rules
- Circular dated 17<sup>th</sup> November 2015 addressed to Category 1, 2 and 3 Investment Services Licence Holders on the MFSA's position regarding Government Securities

- Circular dated 18<sup>th</sup> November 2015 addressed to MiFID Firms which are required to submit either the Appendix 2A and the Appendix 2C as part of their regulatory reporting requirements
- Circular dated 16<sup>th</sup> December 2015 addressed to the Financial Services Industry on the Call For Evidence issued by the European Commission on the EU Regulatory Framework for financial services
- Circular dated 22<sup>nd</sup> December 2015 addressed to the Financial Services Industry on the thematic review on compliance with governance, compliance and risk management
- Circular dated 28<sup>th</sup> December 2015 addressed to Investment Services Licence Holders on the EBA Report on Investment Firms in response to the Commission's Call for Advice of December 2014
- Prevention of Market Abuse
- Circular dated 6<sup>th</sup> February 2015 addressed to the Financial Services Industry updating on the Technical Advice Final Paper issued by ESMA on Possible Delegated Acts concerning the Market Abuse Regulation (MAR)
- Circular dated 21<sup>st</sup> October 2015 addressed to listed companies, directors and compliance officers of Investment Services Licence Holders on the Market Abuse Regulation and the Market Abuse Directive II.

### **Financial Institutions Rules**

- FIR/04/2015 on Security of Internet Payments of Credit, Payment and Electronic Money Institutions

### **Insurance Business Rules**

- Insurance Rule 33 of 2015 on Phasing-In Measures for Solvency II Implementation
- Insurance Rule 34 of 2015 on Repeal of Insurance Rules made under the Insurance Business Act

### **Trusts and Trustees**

- Circular dated 6<sup>th</sup> March 2015 addressed to Trustees on the coming into force of various regulations issued pursuant to the Trusts and Trustees Act
- Circular dated 20<sup>th</sup> October 2015 addressed to the Financial Services Industry on the revised Personal Questionnaire
- Circular dated 4<sup>th</sup> December 2015 addressed to Authorised Trustees and other Fiduciary Service Providers, excluding Authorised Administrators of private foundations, in terms of article 43 of the Trusts and Trustees Act
- Circular dated 30<sup>th</sup> December 2015 addressed to Authorised Trustees and other Fiduciaries authorised in terms of article 43 of the Trusts and Trustees Act on the thematic review on compliance with the requirements of corporate governance

## APPENDIX IV – CONSULTATION PAPERS AND FEEDBACK STATEMENTS ISSUED IN 2015

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### *Consultation Documents And Feedback Statements Issued By The Banking Supervision Unit*

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#### **Consultation Documents**

- Consultation on the draft regulations transposing Directive 2014/49/EU on deposit guarantee schemes and other ancillary rules

### *Consultation Documents And Feedback Statements Issued By The Conduct Supervisory Unit*

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#### **Consultation Documents – Conduct Supervisory Unit**

- Consultation relating to the creation of a proposed Conduct of Business Rulebook

#### **Feedback Statements – Trusts and Trustees Act**

- Feedback statement to the MFSA Consultation Document on the proposed regulation on the use of trusts for persons with a disability

### *Consultation Documents And Feedback Statements Issued By The Consumer Complaints Unit*

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#### **Consultation Documents**

- Consultation on the drawing up of a provisional list of the most representative services linked to a payment account and subject to a fee under the Payment Accounts Directive (2014/92/EU)

### *Consultation Documents And Feedback Statements Issued By The Insurance And Pensions Supervision Unit*

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#### **Consultation Documents - Insurance Business Act**

- Consultation on proposals for amendments to Insurance Rule 32 of 2014
- Consultation on quantitative reporting requirements under Solvency II
- Consultation on the regulations to be issued under the Insurance Business Act
- Consultation on the Insurance Business (Supervision of Insurance and Reinsurance Undertakings in a Group) Regulations, 2015
- Consultation on Insurance Rules to be issued under the Insurance Business Act
- Consultation on Insurance Rules to be issued under the Insurance Business Act

#### **Feedback Statements – Retirement Pensions Act**

- Feedback statement issued further to the industry responses on the Regulations and Pension Rules issued under the Retirement Pensions Act

#### **Feedback Statements – Insurance Business Act and Insurance Intermediaries Act**

- Feedback statement issued further to the MFSA Consultation on the proposed amendments to the Insurance Business Act and the Insurance Intermediaries Act
- Feedback statement issued further to the MFSA Consultation on Regulations to be issued under the Insurance Business Act

## *Consultation Documents And Feedback Statements Issued By The Regulatory Development Unit*

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### **Consultation Documents**

- Joint consultation between the MFSA and the Central Bank of Malta on the methodology for the identification of other systemically important institutions (O-SIIs) and the related capital buffer calibration

### **Feedback Statements**

- Feedback Statement on the MFSA and the Central Bank of Malta Consultation on the methodology for the identification of other systemically important institutions (O-SIIs) and the related capital buffer calibration

## *Consultation Documents And Feedback Statements Issued By The Securities And Markets Supervision Unit*

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### **Consultation Documents**

- Consultation on the regulatory approach applicable to licenced PIFs and AIFs
- Consultation on the proposed transposition of the UCITS V Directive

## APPENDIX V- ISSUED AND SURRENDERED LICENCES IN 2015

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### LICENCES ISSUED

#### *Banking*

##### *New licenses*

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#### **Credit Institutions**

- Credorax Bank Limited to transact the business of banking in terms of Article 7(1) of the Banking Act. It is also licensed to carry out the following activities listed in the Schedule to the Act, namely payment services as defined in the Financial Institutions Act, guarantees and commitments, trading for own account and issuing of electronic money.

#### **Financial Institutions**

- YSG Safe Processing Limited to provide payment services.
- EMP Systems Limited to provide payment services and issuing of electronic money.
- Handi.cash Limited to carry out issuing of electronic money.
- PaymentWorld Europe Limited to provide payment services and issuing of electronic money.
- Petranka Beheer B.V to provide lending services.
- Money + Card Payment Institution Limited to provide payment services.
- KBC Euro Credit Limited to carry out lending activities, venture or risk capital services, guarantees and commitments and trading for own account.
- MTACC Limited to provide payment services and issuing of electronic money.
- Finco Treasury Management Limited to carry out trading for own account or for account of customers in foreign exchange.

#### *Insurance*

##### *New licences*

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#### **Insurance Undertakings**

- Licence issued to PSA Insurance Europe Limited to carry on business of insurance in three classes of the general business.
- Licence issued to PSA Life Insurance Europe Limited to carry on business of insurance in one class of the long term business.
- Licence issued to Standard Re (Malta) Limited to carry on business of reinsurance in two classes of the general business.

#### **Protected cell companies**

- Licence issued to DARAG Malta Insurance and Reinsurance PCC Limited to carry on business of insurance and reinsurance in thirteen classes of the general business.

#### **Protected Cells**

- Approval of L'AIME Cell as a protected cell of Atlas Insurance PCC Limited to write business of insurance in two classes of the general business.
- UIB Cell as a protected cell of Advent Insurance PCC Limited to write business of insurance in two classes of general business.

## *Insurance Intermediaries*

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### **Enrolment of Insurance Manager**

- PSA Insurance Manager Limited.

### **Protected Cells**

- Approval of Northern Light Insurance Cell as a cell of Jatco Insurance Brokers PCC Limited.

## *Extension of Licences, Revisions, Mergers and Conversions*

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### **Insurance Undertakings**

- QIC Europe Limited to carry on business of insurance and reinsurance in all classes of the general business.
- Bray Insurance Company Limited to carry on business of insurance in one additional class of the general business.

### **Insurance Agents**

- Laferla Insurance Agency Limited to act as an insurance agent on behalf of Mapfre Middlesea plc in one class of the long term business.
- Untours Insurance Agency Limited to act as an insurance agent on behalf of Mapfre Middlesea plc in 14 classes of the general business.
- Montaldo Insurance Agency Limited to act as an insurance agent on behalf of Mapfre Middlesea plc in nine classes of the general business.

## *Company Service Providers*

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### **Certificate issued to:**

- 8 Corporate Services Limited.
- Alter Domus (Services) Malta Limited.
- Amarillo Investment Solutions Limited.
- Amicorp Services Limited.
- Aequitas Management Limited.
- AppleBe Limited.
- Avanzia Taxand Limited.
- Bourse Corporate Services (Malta) Limited.
- BTI Management Limited.
- CA International Limited.
- Contact Advisory Services Limited.
- Combined Maritime Services Limited.
- Credence Corporate & Advisory Services Limited.
- DZ & A Corporate Limited.
- Encore Services Limited.
- Erreme Corporate Services Limited.
- Fintel Limited.
- GA Corporate Limited.
- Ganado Services Limited.
- Geofocus Solutions plc.

- Athos Family & Business Services (Malta) Limited.
- Integritas Consulting Limited.
- Integritas Corporate Services Limited.
- International Management Services Limited.
- J.B. Sorotto Limited.
- JTC (Malta) Limited.
- Juanafil Corporate Services Limited.
- LGA International Limited.
- Mann Made Malta Limited.
- Marsh Corporate Services Malta Limited.
- Marsh Management Services Malta Limited.
- Med Castle Directors Limited.
- Medina Management Services Limited.
- Octave Corporate Services Limited.
- Osiris Corporate Services Limited.
- Papilio Corporate Limited.
- Papilio Services Limited.
- Praxis Fund Services (Malta) Limited.
- Quinton Services Limited.
- RiskCap International Limited.
- S&D Yachts Limited.
- SGGG Fexserv Fund Services (Malta) Limited.
- Sovereign Directors (Malta) Limited.
- SMM Consultancy Services Limited.
- SMS Corporate Services Limited.
- STA Corporate Services Limited.
- Stivala & Stivala Corporate Management Limited.
- Trident Corporate Services (Malta) Limited.
- Triglav Management Limited.
- Trustmoore Corporate Services (Malta) Limited.
- Valletta Fund Services Limited.
- Vella & Associates.
- WJ Parnis England Limited.
- WDM Lex Advisory Limited.
- Willis Services (Malta) Limited.



## **Securities**

### *Investment Services*

#### *New licences*

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#### **Category 1A**

- Cliff Drive Capital Limited to provide the services of reception and transmission of orders for Retail Clients and Professional Clients (including Collective Investment Schemes).
- Templar EIS Limited to provide investment advice, reception and transmission of orders for Retail Clients, Professional Clients (including Collective Investment Schemes) and Eligible Counterparties.

#### **Category 1B**

- ActivYT Investment Advisory Company Limited to provide investment advice for Professional Clients (including Collective Investment Schemes).

#### **Category 2**

- Intrepid Capital Limited to provide the services of reception and transmission of orders, investment advice for Retail Clients, Professional Clients (including Collective Investment Schemes) and Eligible Counterparties as well as management of investments for Retail Clients and Professional Clients (excluding Collective Investment Schemes) and Eligible Counterparties.
- Mori Capital Management Limited to provide the services of management for Professional Clients (excluding Collective Investment Schemes).
- Pilatus Bank Limited to provide the services of execution of orders on behalf of other persons, reception and transmission of orders, investment advice, management services, trustee and custody services for Retail Clients, Professional Clients (excluding Collective Investment Schemes) and Eligible Counterparties.
- Tendall Capital Markets Limited to provide the services of execution of orders on behalf of other persons, reception and transmission of orders for Retail Clients, Professional Clients (including Collective Investment Schemes) and Eligible Counterparties.

#### **UCITS Management Company**

- AQA Capital Limited to provide the services of management for Professional Clients (including Collective Investment Schemes) and investment advice for Retail Clients and Professional Clients (including Collective Investment Schemes).

#### **AIFMs**

- Bastion Wealth Limited to provide management services for Collective Investment Schemes.
- GWM Group Investment Management (Malta) Limited to provide management of investments for Professional Clients (including Collective Investment Schemes).
- INCO Capital Limited to provide management services for Collective Investment Schemes.
- NOVIA Management Limited to provide management services for Collective Investment Schemes.
- Portsea AIFM Malta Limited to provide management of investments for Collective Investment Schemes.
- Heartland Investment Management Limited to provide management services for Collective Investment Schemes.

#### **AIFMs and UCITS MANAGEMENT COMPANIES**

- Abalone Asset Management Limited to provide management of investments for Collective Investment Schemes.
- Framont & Partners Management Limited to provide investment advice and management of investments for Retail Clients, Professional Clients (including Collective Investment Schemes) and Eligible Counterparties.

## De MINIMIS AIFM

- Medina Asset Management Limited to provide the services of placing of instruments without a firm commitment basis, nominee services, reception and transmission of orders, execution of orders on behalf of other persons, investment advice and management services for Retail Clients, Professional Clients (including Collective Investment Schemes) and Eligible Counterparties.

## UCITS and DE MINIMIS AIFM

- Linear Asset Management Limited to provide management services for Collective Investment Schemes.

## CATEGORY 2 & 4A

- Zarattini International Limited to provide the services of execution of orders on behalf of other persons, reception and transmission of orders, nominee and placing of instruments without a firm commitment basis for Retail Clients, Professional Clients (including Collective Investment Schemes) and Eligible Counterparties. Zarattini International Limited is also licensed to act as custodian for Collective Investment Schemes.

## CATEGORY 3

- Binary Investments (Europe) Limited to deal on own account for Retail Clients and Professional Clients (including Collective Investment Schemes).

## CATEGORY 4A

- Reyl & Cie (Malta) Limited to act as a custodian for Collective Investment Schemes.

## CATEGORY 4B

- Alter Domus Fund Services (Malta) Limited to act as a custodian for Collective Investment Schemes as indicated in SLC1.03 of Part IV of the Investment Services Rules for Investment Services Providers.

## RECOGNISED FUND ADMINISTRATORS

- Certificate issued to Finanz-Fund Services Limited.

## *Investment Services*

### *Extension and Revision of Licences*

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#### **Extensions**

- GWM Group Investment Management (Malta) Limited to include the provision of investment advice to Professional Clients.
- Calamatta Cuschieri Investment Services Limited to include dealing on own account for Retail Clients, Professional Clients and Eligible Counterparties in relation to foreign exchange acquired and held for investment purposes.

#### **Revisions**

- Revision of Category 1A licence issued to Timberland Invest Limited to cover the additional investment service of placing of instruments without a firm commitment basis.
- Revision of Category 2 licence issued to Mansard Capital Management Limited to provide Management Services to Professional Clients (including Collective Investment Schemes) in relation to all the instruments listed in its current investment services licence.
- Category 3 licence issued to Finco Treasury Management Limited to deal on own account in relation to transferable securities, money market instruments, units in Collective Investment Schemes, and foreign exchange held or acquired for investment purposes to Retail Clients, Professional clients (excluding Collective Investment Schemes) and Eligible counterparties.

## UCITS MANAGEMENT COMPANY

- AMAGIS Capital Management Limited to act also as a UCITS management company.

## AIFM

Revision of licence to act as an Alternative Investment Fund Manager issued to

- Prestige Capital Management Limited.
- Gamma Capital Markets Limited.
- Aros Capital Management Limited.
- SphereInvest Group Limited.
- Dormouse Limited.

## DE MINIMIS

Revision of licence to act as De Minimis Licence Holders issued to

- Alpha Value Management Limited.
- GWM Asset Management (Malta) Limited.

## *Collective Investment Schemes*

### *New licences*

#### *Professional Investor Funds Targeting Qualifying Investors*

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#### **Collective Investment Schemes licences issued to**

- Anchor Fund SICAV plc in respect of two sub-funds.
- Audentia Capital SICAV II plc in respect of one sub-fund.
- Audentia Capital SICAV plc in respect of ten sub-funds.
- Aurelius SICAV plc in respect of one sub-fund.
- Bastion Wealth Strategies SICAV plc in respect of one sub-fund.
- Bodi Invest Fund SICAV plc in respect of one sub-fund.
- EICO Funds SICAV plc in respect of one sub-fund.
- Falcon Investment SICAV plc in respect of one sub-fund.
- Golden Share Investments SICAV plc in respect of two sub-funds.
- HamBerMuc SICAV plc in respect of one sub-fund.
- HFH SICAV plc in respect of one sub-fund.
- Himalaya SICAV plc in respect of one sub-fund.
- Hyperion Energy Investment Fund SICAV plc in respect of one sub-fund.
- Katla Funds SICAV plc in respect of one sub-fund.
- Magiston Funds SICAV plc in respect of two sub-funds.
- Malta IFP SICAV plc in respect of one sub-fund.
- Meridon Funds SICAV plc in respect of one sub-fund.
- Monte Rosa SICAV plc in respect of one sub-fund.
- Open Door SICAV plc in respect of two sub-funds.
- Paragon SICAV plc in respect of three sub-funds.
- Pilatus SICAV plc in respect of four sub-funds.
- Polaris Finance SICAV plc in respect of one sub-fund.

- Redhedge SICAV plc in respect of one sub-fund.
- Royal Fund SICAV plc in respect of two sub-funds.
- Shannonside Capital SICAV plc in respect of one sub-fund.
- Southern Cross SICAV plc in respect of one sub-fund.
- TEE Market Fund SICAV plc in respect of one sub-fund.
- The Ethika Fund SICAV plc in respect of three sub-funds.
- The Nascent Fund SICAV plc in respect of one sub-fund.
- Velocity Classic Auto Fund SICAV plc in respect of one sub-fund.
- Woodman Funds SICAV plc in respect of four sub-funds.

### *Professional Investor Funds Targeting Experienced Investors*

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#### **Collective investment scheme licences issued to**

- Bastion Wealth Strategies SICAV plc in respect of one sub-fund.
- Cerro Torre SICAV plc in respect of one sub-fund.
- Falcon Investment SICAV plc in respect of one sub-fund.
- Grosvenor Square Portfolio SICAV plc in respect of one sub-fund.
- Lanner SICAV plc in respect of one sub-fund.
- Strategica Funds SICAV plc in respect of one sub-fund.

### *Professional Investor Funds Targeting Extraordinary Investors*

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#### **Collective investment scheme licences issued to**

- Southern Cross SICAV plc in respect of four sub-funds.
- Sunshine Fund (Malta) SICAV Limited in respect of one sub-fund.
- Tribord SICAV plc in respect of one sub-fund.
- Zodial Opportunities SICAV plc in respect of one sub-fund.

#### **Recognised Private Schemes**

- EB Global Investment Funds SICAV plc.
- Miko Investment Funds SICAV plc.
- MLB Investment Funds SICAV plc.

### *UCITS*

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#### **Collective investment scheme licences issued to**

- AMA UCITS SICAV plc in respect of two sub-funds.
- AQA UCITS Funds SICAV plc in respect of three sub-funds.
- Calamatta Cuschieri Funds SICAV plc in respect of one sub-fund.
- Eiger SICAV plc in respect of three sub-funds.

- EMIntrinsic SICAV plc in respect of two sub-funds.
- Fondeum Fund SICAV plc in respect of one sub-fund.
- Merrill SICAV plc in respect of one sub-fund.
- Provenance SICAV plc in respect of one sub-fund.
- PSG Global Funds SICAV plc in respect of one sub-fund.
- PSG International Funds SICAV plc in respect of one sub-fund.
- Waterfront SICAV plc in respect of four sub-funds.

### *Alternative Investment Funds Targeting Qualifying Investors*

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#### **Collective investment scheme licences issued to**

- CAM Fund Series SICAV plc in respect of one sub-fund.
- Concorde SICAV plc in respect of one sub-fund.
- Prime Metal SICAV plc in respect of one sub-fund.

### *Alternative Investment Funds Targeting Professional Investors*

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#### **Collective investment scheme licences issued to**

- Elef Global Investments SICAV plc in respect of one sub-fund.
- INCO Capital Funds SICAV plc in respect of one sub-fund.
- Italo SICAV plc in respect of two sub-funds.
- Millennium Global Funds SICAV plc in respect of one sub-fund.
- NOVIA Funds SICAV plc in respect of one sub-fund.
- Portsea Fund SICAV plc in respect of one sub-fund.
- Portsea Master Fund SICAV plc in respect of one sub-fund.

#### **Collective Investment Schemes – Conversion of Licences**

- Aquarium Funds SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.
- Aros Paradigm Fund SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.
- Aros Paradigm Master Fund SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.
- Aros Bond Strategies SICAV IC plc was converted from Professional Investor Fund to Alternative Investment Fund.
- RohFund Global SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.
- The ARP Funds (SICAV) plc was converted from Professional Investor Fund to Alternative Investment Fund.
- Aquarium Funds SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.
- Burren Global Arbitrage Fund SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.
- Burren Global Arbitrage Master Fund SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.
- Concorde SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.
- Cygnus Master SICAV Limited was converted from Professional Investor Fund to Alternative Investment Fund.
- Cygnus SICAV Limited was converted from Professional Investor Fund to Alternative Investment Fund.
- Eurasia Alternative Investment Funds SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.

- FK Capital Management SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.
- Peak Momentum Fund SICAV plc was revised from Professional Investor Fund targeting Qualifying Investors to Alternative Investment Fund targeting Professional Investors.
- Park Lane Capital SICAV plc was revised from Professional Investor Fund targeting Qualifying Investors to Alternative Investment Fund targeting Professional Investors.
- The Timeless US Growth Fund SICAV plc was revised from Professional Investor Fund targeting Qualifying Investors to Professional Investor Fund targeting Experienced Investors.
- Futura funds SICAV plc was revised from Professional Investor Fund targeting Experienced Investors to Professional Investor Fund targeting Qualifying Investors.

### *Recognised Incorporated Cell Companies*

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#### **Recognition Certificate issued to**

- Zeta Fund Services RICC Limited.

### *Incorporated Cells*

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#### **Collective investment scheme licences issued to**

- Abel Absolute Return IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited to carry out the activities of Professional Investor Fund targeting Qualifying Investors.
- Bestum Universalis Fund IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited to carry out the activities of Professional Investor Fund targeting Qualifying Investors.
- Cobold IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited to carry out the activities of Professional Investor Fund targeting Qualifying Investors.
- E Square IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited to carry out the activities of Professional Investor Fund targeting Qualifying Investors.
- Gvolution IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited to carry out the activities of Professional Investor Fund targeting Qualifying Investors.
- MMG Opportunity Defensive IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited to carry out the activities of Professional Investor Fund targeting Qualifying Investors.
- Pentagon High Conviction Bond Fund IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited to carry out the activities of Professional Investor Fund targeting Qualifying Investors.
- Roccaforte IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited to carry out the activities of Professional Investor Fund targeting Qualifying Investors.
- Stoik Fund IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited to carry out the activities of Professional Investor Fund targeting Qualifying Investors.
- Together Fund IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited to carry out the activities of Professional Investor Fund targeting Qualifying Investors.

## *Trustees And Fiduciaries*

### *New Licences*

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#### **Authorisation issued to**

- DCTS (Malta) Limited to provide fiduciary services which do not include acting as a trustee.
- IG Trustee Limited to act as trustee or co-trustee
- Aqua Trust Services Malta Limited to act as trustee or co-trustee and to act as administrator of private foundations
- Quinton Trust (Malta) Limited to provide trustee and other fiduciary services.
- War Chest Fiduciary Services Limited to act as administrator of private foundations.
- Vassiliades & Co (Malta) Limited to provide fiduciary services which do not include acting as trustee.
- Finco Trust Services Limited to act as trustee or co-trustee, to provide fiduciary services and to act as administrators of private foundations.
- HBM Trustees Limited to provide trustee and other fiduciary services including acting as administrators of private foundations.
- JTC Trustees (Malta) Limited to provide trustee and other fiduciary services including acting as administrators of private foundations.

#### **Trustees and Fiduciaries – Extension of Licences**

- Sovereign Trust (Malta) Limited to act as an administrator of private foundations.

## *Securitisation Vehicles*

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#### **Notified Securitisation Vehicles**

- Acknowledgement issued to AMAGIS SCC PLC.
- Acknowledgement issued to Algebris Limited.
- Acknowledgement issued to Al Jowf Limited.
- Acknowledgement issued to Al Qibla Limited.
- Acknowledgement issued to BLUE SEC PLC.
- Acknowledgement issued to InvestCapital Malta Limited.
- Acknowledgement issued to Presco Investments Limited.
- Acknowledgement issued to Primus Global Securities Investment SCC PLC.

#### **Cells**

- Acknowledgement issued to Algebris Cell.

## *Pensions*

### *New certificates of registration*

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#### **Retirement Schemes**

- Elmo International Retirement Plan
- Novia Global Retirement Plan.

### *Retirement Schemes Administrators*

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- Elmo Pensions Limited.
- ITC International Pensions Limited.

### *Surrendered Licences Insurance*

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#### **Insurance Undertakings**

- Bluebird Reinsurance (Europe) Limited.
- Allcare Insurance Limited.
- Taurus Insurance Limited.
- Nautilus Indemnity (Europe) Limited.
- FNF Title Insurance Company Limited.
- Falcon Insurance Limited.
- QIC International LLC.

#### **Insurance Managers**

- STM Malta Insurance Management Limited.

### *Investment Services*

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#### **Category 1A**

- Cosmic Financial Services (Malta) Limited

#### **Category 2**

- Vitesse Trading Limited
- Union Capital Management Limited
- Allanzia Asset Management Limited
- Altruid Systems Limited
- RTFX Fund Management Limited
- Merit Performance Concepts Limited

#### **CATEGORY 3**

- Swissquote Financial Services (Malta) Limited
- RTFX Limited



**Professional Investor Funds Targeting Qualifying Investors**

- Absolute SICAV plc in respect of one sub-fund.
- Accuris Fund SICAV plc in respect of two sub-funds.
- AUM Global Platform SICAV plc in respect of one sub-fund.
- Bulkara Capital SICAV plc in respect of one sub-fund.
- Burren Global Arbitrage Opportunities Master Fund SICAV Limited in respect of one sub-fund.
- CAM Fund Series SICAV plc in respect of three sub-funds.
- DTMR Management SICAV plc in respect of one sub-fund.
- FMG Funds SICAV plc in respect of one sub-fund.
- Grow Wealth SICAV plc in respect of one sub-fund.
- Howard Scott & Co. SICAV plc in respect of one sub-fund.
- Innocap Fund SICAV plc in respect of thirty sub-funds.
- JVC Capital SICAV plc in respect of one sub-fund.
- Macro Fund (SICAV) plc in respect of one sub-fund.
- Marlon Fund SICAV plc in respect of one sub-fund.
- Meltemi Capital SICAV plc in respect of two sub-funds.
- Metatron Capital SICAV plc in respect of one sub-fund.
- NBCG Fund SICAV plc in respect of nineteen sub-funds.
- Norwatt Nordic Power SICAV plc in respect of two sub-funds.
- Palladium Fund SICAV plc in respect of one sub-fund.
- Pluri-Invest SICAV plc in respect of one sub-fund.
- Resco Funds SICAV plc in respect of one sub-fund.
- RPS Umbrella Fund (Malta) SICAV plc in respect of one sub-fund.
- TGA Funds SICAV plc in respect of one sub-fund.
- The Nascent Fund SICAV plc in respect of three sub-funds.
- Tourist Investment Fund SICAV plc in respect of one sub-fund.
- Tuffieh Funds SICAV plc in respect of one sub-fund.
- UK Financial Services Products Fund SICAV plc in respect of one sub-fund.
- Villers Investment Funds SICAV plc in respect of one sub-fund.
- Willer Opportunities (Malta) SICAV Limited in respect of one sub-fund.
- Woodman Funds SICAV plc in respect of two sub-funds.

**Professional Investor Funds Targeting Experienced Investors**

- Falcon Investment SICAV plc in respect of one sub-fund.
- GSC SICAV plc in respect of one sub-fund.
- RS Resources (Malta) SICAV plc in respect of one sub-fund.

**Professional Investor Funds Targeting Experienced & Qualifying Investors**

- FMG Funds SICAV plc in respect of one sub-fund.

**Incorporated Cells**

- Cloud Capital 1 IC SICAV plc.
- Meliora Absolute Return Fund IC SICAV plc.
- MMG Opportunity Defensive IC SICAV plc.

### **Alternative Investment Funds Targeting Qualifying Investors**

- FK Capital Management SICAV plc in respect of one sub-fund.

### **Alternative Investment Funds Targeting Extraordinary Investors**

- EurAsia Alternative Investments Fund SICAV plc in respect of two sub-funds.

### **UCITS**

- Celsius Global Funds Sicav Plc In Respect Of Two Sub-Funds.

### **Foreign Based**

- Lloyds Money Fund Limited in respect of four sub-funds.

### **Recognised Fund Administrators**

- HSBC Global Asset Management (Malta) Limited.

### *Trustees, Fiduciaries And Nominees*

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- Medfinco Limited.
- Capitol Nominee Services Limited.
- GSN Limited.
- Mamo and Mercieca Limited.
- Finco Control Company Limited.

### *Pensions*

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#### **Retirement Scheme**

- The Falcon Plan.

#### **Retirement Scheme Administrator**

- Abacus Corporate Services Limited.

## APPENDIX VI - MEMORANDA OF UNDERSTANDING IN FORCE

<i>Entity</i>	<i>Scope of Agreement</i>
<b>Bilateral MoUs with Foreign Regulators</b>	
Australian Prudential Regulation Authority	Banking and Insurance
Austrian Financial Market Authority	Credit Institutions
Banking Regulation and Supervision Agency of Turkey	Banking
Belgian Banking and Finance Insurance Commission	Banking
Bermuda Monetary Authority	Insurance, Credit Institutions and Trusts
Capital Markets Board of Turkey (Sermay Piyasasi Kurulu)	Securities
Cayman Islands Monetary Authority	Credit Institutions, Insurance, Securities and Trusts
Central Bank of Portugal	Credit Institutions
Central Bank of Cyprus	Credit Institutions
Central Bank of Netherlands (DNB)	Banking
China Banking Regulatory Commission	Banking
China Securities Regulatory Commission	Securities
Dubai Financial Services Authority	Securities, Credit Institutions, Insurance and Trusts
Financial Services Board of South Africa	Securities, Insurance and Pension Funds
German Federal Financial Supervisory Authority (BaFin)	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
National Bank of Slovakia	Banking, Insurance and Securities
Nebraska Department of Insurance	Insurance
Qatar Financial Centre Regulatory Authority	Banking, Financial and Insurance related business
Securities Market Commission of Portugal	Securities
UK Financial Services Authority	Banking, Insurance and Investment Services
Ukraine National Securities and Stock Markets Commission	Securities and Markets
Vietnam National Financial Supervisory Commission	Banking, Securities and Insurance
<b>Bilateral MoU's with Local Authorities</b>	
Central Bank of Malta	Payment and Securities settlements systems, and on the Exchange of Information in the Fields of Financial Services
Ministry of Finance, the Economy and Investment and Central Bank of Malta	Co-operation in the management of financial crisis situations
Office of Fair Competition	Mutual Assistance and exchange of information.
<b>Multilateral MoUs and Protocols</b>	
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

## APPENDIX VII – PENDING APPEALS BEFORE THE FINANCIAL SERVICES TRIBUNAL

<b>Christopher J. Pace v. MFSA</b> (Case Ref: FST3/09)	An appeal from a penalty imposed by the MFSA for alleged insider dealing in GlobalCapital plc shares.
<b>Nicholas Portelli v. MFSA</b> (Case Ref: FST04/09)	An appeal from a penalty imposed by the MFSA for alleged insider dealing in GlobalCapital plc shares.
<b>James Blake v. MFSA</b> (Case Ref: FST5/09)	An appeal from a penalty imposed by the MFSA for alleged insider dealing in GlobalCapital plc shares.
<b>European Insurance Group Ltd v. MFSA</b> (Case Ref: FST01/10)	An appeal from a decision of the MFSA to revoke the company's licence to carry on insurance business.
<b>Denise Zammit v. MFSA</b> (Case Ref: FST01/12)	An appeal from a decision of the MFSA not to enrol Ms Zammit in the register of insurance brokers.
<b>MFSP Financial Management Ltd v MFSA</b> (Case Ref: FST04/12)	An appeal from a fine for failure to apply properly the appropriateness and suitability tests when selling asset-backed securities, specifically the ARM Bond, to retail investors.
<b>All Invest Company Limited v MFSA</b> (Case Ref: FST 1/13)	An appeal from a decision of the MFSA to suspend All Invest's licence for, amongst others, failure to apply correctly the appropriateness and suitability tests when selling asset-backed securities, specifically the ARM Bond, to retail investors.
<b>All Invest Company Limited and Wallace Falzon v MFSA</b> (Case Ref: FST 2/13)	An appeal from a directive of the MFSA requiring All Invest to do all in its power to delay the winding-up of its business following All Invest's application to the Court for the dissolution and winding-up of the company.
<b>Hermione Bugeja v MFSA</b> (Case Ref: FST 1/14)	An appeal requesting the revocation of a freezing order issued by the MFSA in the context of its investigations into the affairs of Maltese Cross Financial Services Limited and related parties.
<b>Murcko, Legay, Premier Interchange Gateway Limited v MFSA</b> (Case Ref: 1/15)	An appeal from a decision of the MFSA not to grant a Category 2 Investment Services Licence.
<b>Novium AG v MFSA</b> (Case Ref: 2/15)	An appeal filed by an Investment Manager against alleged remedial action requested to be taken.

## APPENDIX VIII - ABBREVIATIONS USED IN THIS REPORT

<b>AIF</b>	Alternative Investment Fund	<b>ESRB</b>	European Systemic Risk Board
<b>AIFMs</b>	Alternative Investment Fund Managers	<b>EU</b>	European Union
<b>AIFMD</b>	Alternative Investment Fund Managers Directive	<b>EWSM</b>	European Wholesale Securities Market
<b>AML</b>	Anti-Money Laundering	<b>FAQ</b>	Frequently Asked Questions
<b>ATMs</b>	Automated Teller Machines	<b>FATF</b>	Financial Action Task Force
<b>AQR</b>	Asset Quality Review	<b>FERMA</b>	Federation of European Risk Management Associations
<b>AUM</b>	Assets under Management	<b>FIAU</b>	Financial Intelligence Analysis Unit
<b>BoIS</b>	Business of Insurance Statements	<b>FIN-NET</b>	Financial Dispute Resolution Network
<b>BRRD</b>	Bank Recovery and Resolution Directive	<b>FINREP</b>	Financial Reporting (reporting framework issued by the EBA covering balance sheet and income statement data)
<b>BRIS</b>	Business Registers Interconnection System		
<b>CA</b>	Comprehensive Assessment	<b>FLAOR</b>	Forward Looking Assessment of Own Risks
<b>CCB</b>	Capital Conservation Buffer	<b>GDP</b>	Gross Domestic Product
<b>CBM</b>	Central Bank of Malta	<b>IAIS</b>	International Association of Insurance Supervisors
<b>CET 1</b>	Common Equity Tier 1 (capital)	<b>ICAAP</b>	Internal Capital Adequacy Assessment Process
<b>CFT</b>	Combating the Financing of Terrorism	<b>IFS</b>	Institute of Financial Services
<b>CMTF</b>	Crisis Management Task Force	<b>IFSP</b>	Institute of Financial Services Practitioners
<b>CMU</b>	Capital Markets Union	<b>IGA</b>	Intergovernmental Agreement
<b>COREP</b>	Common Reporting (standardized reporting framework issued by the EBA for the Capital Requirements Directive reporting)	<b>ILS</b>	Institute of Legal Studies
		<b>IMF</b>	International Monetary Fund
<b>CRA</b>	Credit Rating Agency	<b>IOSCO</b>	International Organisation of Securities Commissions
<b>CRD</b>	Capital Requirements Directives		
<b>CRR</b>	Capital Requirements Regulation	<b>ISACA</b>	Information Systems Audit and Control Association
<b>CSPs</b>	Company Service Providers		
<b>CSR</b>	Corporate Social Responsibility	<b>JFSB</b>	Joint Financial Stability Board
<b>DSC</b>	Domestic Standing Committee	<b>JSTs</b>	Joint Supervisory Teams
<b>DCMF</b>	Domestic Crisis Management Framework	<b>KIID</b>	Key Investor Information Document
<b>EBA</b>	European Banking Authority	<b>LCR</b>	Liquidity Coverage Ratio
<b>EC</b>	European Commission	<b>LSIs</b>	Less Significant Institutions
<b>ECB</b>	European Central Bank	<b>MARM</b>	Malta Association of Risk Management
<b>ECC</b>	Education Consultative Council	<b>MCAST</b>	Malta College of Arts Science and Technology
<b>EEA</b>	European Economic Area	<b>MCCAA</b>	Malta Competition and Consumer Affairs Authority
<b>EFTF</b>	Ethics Framework Task Force		
<b>EIOPA</b>	European Insurance and Occupational Pensions Authority	<b>MFIN</b>	Ministry for Finance
		<b>MFSA</b>	Malta Financial Services Authority
<b>ELTIFs</b>	European Long-Term Investment Funds (Regulation)	<b>MIA</b>	Malta Institute of Accountants
		<b>MiFID</b>	Markets in Financial Instruments Directive
<b>EMIR</b>	European Markets Infrastructure Regulation	<b>MiFIR</b>	Markets in Financial Instruments Regulation
<b>ESAs</b>	European Supervisory Authorities	<b>MIM</b>	Malta Institute of Management
<b>ESFS</b>	European System of Financial Supervision	<b>MIMA</b>	Malta Insurance Managers Association
<b>ESMA</b>	European Securities and Markets Authority	<b>MITC</b>	Malta International Training Centre

<b>MONEYVAL</b>	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
<b>MoU</b>	Memorandum of Understanding
<b>MSE</b>	Malta Stock Exchange
<b>NAV</b>	Net Asset Value
<b>NCA</b>	National Competent Authority
<b>NGO</b>	Non-Governmental Organisation
<b>NSA</b>	National Supervisory Authority
<b>NSTs</b>	National Specific Templates
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>ORSA</b>	Own Risk and Solvency Assessment
<b>O-SII</b>	Other Systemically Important Institutions
<b>OTC</b>	Over-the-Counter (derivative transactions)
<b>PAD</b>	Payments Account Directive
<b>PCCs</b>	Protected Cell Companies
<b>PFMA</b>	Prevention of Financial Markets Abuse
<b>PIFs</b>	Professional Investor Funds
<b>POS</b>	Point of Sale
<b>PRIIPS</b>	Packaged Retail and Insurance-based Investment Products
<b>ROC</b>	Registry of Companies
<b>RMICAAP</b>	Risk Management Internal Capital Adequacy Assessment Process
<b>RTS</b>	Regulatory Technical Standards
<b>RRR</b>	Recovery and Resolution Regulations
<b>RWAs</b>	Risk Weighted Assets
<b>SIs</b>	Significant Institutions
<b>SICAV</b>	Societe d'Investissement A Capital Variable - Investment company with variable share capital
<b>SLC</b>	Standard Licence Condition
<b>SMN</b>	Senior Management Network (ECB SSM)
<b>SRF</b>	Single Resolution Fund
<b>SRM</b>	Single Resolution Mechanism
<b>SSM</b>	Single Supervisory Mechanism
<b>STRs</b>	Suspicious Transaction Reports
<b>TERs</b>	Total Expenses Ratios (TERs)
<b>UCITS</b>	Undertakings for Collective Investment in Transferable Securities



MFSA

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