MFSA

Malta Financial Services Authority

ANNUAL REPORT 2011

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CHAIRMAN'S STATEMENT

The Malta Financial Services Authority (MFSA) is pleased to present the 2011 Annual Report on its activities and operations.

Once again, the MFSA is able to report that it had a successful year in meeting its obligations in licensing, regulation and supervision, in consumer affairs, involvement in EU and international policy and cooperation and in being a progressive component in the economic development of Malta.

Against the backdrop of continuing global economic fragility and particular concerns about the EU economy in general and the Eurozone in particular, Malta's financial services sector experienced another year of stability and growth. Indeed, direct employment in the sector is moving towards the 10,000 mark.

The Authority approved 225 new licenses across all areas of activity in 2011. The highlights were a large increase in Professional Investor Fund approvals, continued progress in insurance and excellent growth in the pensions and trust management sector. The pensions sector is the newest element of the industry in Malta, having been developed since 2010. The number of pension schemes grew by some 60% in 2011.

2011 saw the first full operating year of the new pan-EU regulatory structure that was put into place following the global crisis of 2007 and 2008. While the new approach will take some time to become embedded in the EU financial services system, the MFSA's experience is that fears expressed in some countries that the new structure would be over-intrusive and heavily prescriptive have been unfounded. The Authority took great care to put well qualified and suitably experienced people into the posts that deal with EU regulatory affairs. This approach has seen the creation of a cooperative and professional relationship with the new bodies.

Malta's philosophy of regulation and supervision remains highly regarded internationally and with distinctive elements that maintain the country's enviable international reputation and contribute towards industry and investor confidence in Malta.

The importance of the behaviours and approaches of national regulators is now far more central to international perceptions of a jurisdiction than ever before. The best businesses want to be in the best regarded places and investors want to be confident that a jurisdiction has a balanced approach that encourages enterprise and investor reward whilst being rigorous with the finance industry in areas like compliance, corporate governance, consumer concerns, marketing standards, training and continuing education.

Good corporate governance is now at the very heart of good business. The finance industry across the world has a great deal of work to do to regain the confidence it once enjoyed. In confidence terms and in marketing terms, those businesses that can show that good corporate governance is fundamental to their way of business will benefit themselves and have a clear advantage in the marketplace.

Regulators have a similar responsibility to behave with probity while fostering conditions where enterprise can flourish. The Authority was consequently delighted to have the benefits of its approach endorsed recently by the world's leading publication for the managed insurance sector. It wrote that Malta is "perhaps the EU's most innovative and progressive domicile" and continued, "…its legislation is among the most captive-suitable within the European Union and is likely to help influence other domicile's future legislation."

Future organic and foreign direct investment growth in the Maltese finance sector shows no sign of falling away. This will inevitably mean that national efforts to keep the industry supplied with suitable staff will remain of high importance. The actions of the MFSA itself, of industry and educational bodies and of the Educational Consultative Council have collectively been extremely successful in adding to the quality and quality of the labour pool. All involved merit the country's gratitude. To stay competitive without over-heating the economy is critical to keeping Malta a destination of choice for the finance industry.

In financial services, Malta is a success. The future is full of promise. But the Authority, government and the industry must remain vigilant and alert. The potential for further shocks to the global financial system is obvious to anyone who keeps abreast of world news. It is a nervous world and one that continues to debate the purpose, nature and structure of the world's financial system. Views on how the industry should be regarded and monitored in the future range across the extremes of Left and Right, but moderate, thoughtful and constructive voices are also engaged. In the light of recent events, such debate is right and inevitable.

Contemporary international public perceptions of the function of international capital are fluid and with fluidity may come changes to the way global public and political opinion seeks to influence the behaviour of capital and its systems. We cannot be certain of outcomes, but we can be certain that maintaining high behavioural and operational standards, investing in people and their skills and nurturing our reputation as a nation committed to support for all forms of commercial integrity are the best guardians of the economic and social benefits derived from the success of finance in Malta.

The report of our work in 2011 is a testament to the quality of staff at the MFSA, to their energy, flexibility, dedication and focus. The organisation is in good heart and wedded to continuing improvement in customer service, in seeking operational efficiencies and in being open-minded and innovative.

I wish to thank to the MFSA's staff for another year of progress. I also wish to pay tribute to those industry leaders who work tirelessly for the common good, while also running successful concerns, and to thank my fellow Governors for their good counsel and energetic service.

J V Bannister

THE AUTHORITY

BOARD OF GOVERNORS

Front row left to right: Dr. David Fabri, Prof. Joe V. Bannister, Dr. Louise Ellul Cachia Caruana, Mr. Albert A. Attard
Back row left to right: Dr Anton Felice, Dr. Cynthia Scerri Debono, Prof. Josef Bonnici, Mr. Frank Xerri de Caro

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

Members
Mr. Albert A. Attard
Prof. Josef Bonnici, B.A.(Hons.), M.A., Ph.D.
Dr. Louise Ellul Cachia Caruana, LL.D; M.A (Fin. Serv.)
Dr. Anton Felice LL.D
Dr. Cynthia Scerri Debono, LL.D
Mr. Frank Xerri de Caro, ACIB

Secretary
Dr. David Fabri LL.D

The Board of Governors is also the Listing Authority for the purpose of the Financial Markets Act.

SUPERVISORY COUNCIL

Chairman
Dr. Andre Camilleri LL.D, Dip. Econ. & Ind. Law
Director General

Members
Dr. Marisa Attard LL.D, ACII
Director – Insurance and Pensions Supervision Unit

Mr. Karol Gabarretta B.A (Hons.) Econ., M.A (Fin. Serv.)
Director – Banking Supervision Unit

Ms. Cristina Parlato Trigona B.A (Hons.) Accty., M.Sc, CPA, ASI
Director – Securities and Markets Supervision Unit

Ms. Marianne Scicluna B.A (Hons.) Bnkg. & Finance, M.Sc (Fin. Reg. & Compliance Mngt.)
Director - Authoristaion Unit

Dr. Michael Xuereb LL.D, M.A (Fin. Serv.)
Director - Regulatory Development Unit

Secretary
Dr. Isabelle Agius LL.D., M.A. (Fin. Serv)

BOARD OF MANAGEMENT AND RESOURCES

Chairman
Mr. Joseph Demanuele FCCA, FIA, CPA
Chief Operations Officer

Members
Mr Robert Aquilina D.P.A., MBA

Mr Godfrey Farrugia
Deputy Director – Information and Communication Technologies Unit

Mr. Paul Vella B.A (Hons.) Bs. Mgt.
Director – Human Resources Development Unit

Mr. Charles Zammit D.B.A., M.C.M.I., A.A.I.A.
Director – Administration Unit

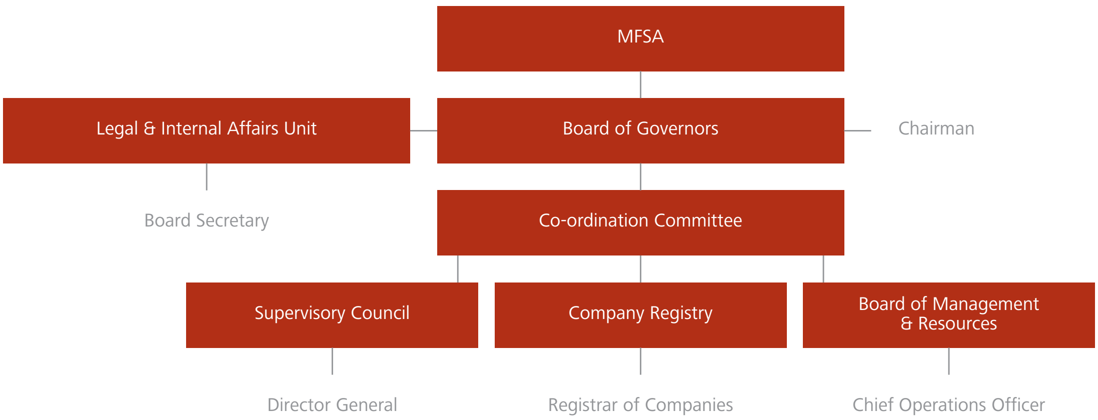
Secretary
Mr. Colin McElhatton B.Sc (Hons), IS & Management (London)

ORGANISATION

The Malta Financial Services Authority (MFSA) was established by law in 2002. 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 and trustees. The MFSA also incorporates the Registry of Companies and is responsible for the admissibility to listing on recognised investment exchanges.

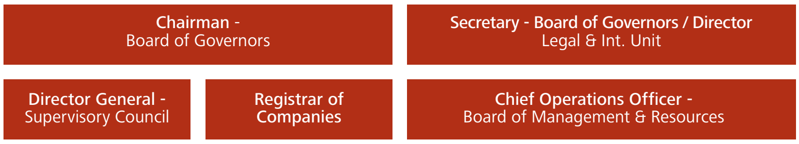
The MFSA is an autonomous body constituted by the Malta Financial Services Authority Act (Cap. 330), and reports annually to Parliament. The main organs (Chart 1) are the Board of Governors, which is appointed by the Prime Minister, the Supervisory Council and the Board of Management and Resources. The three organs are co-ordinated through a Co-ordination Committee.

Chart 1: MFSA Organisation Chart



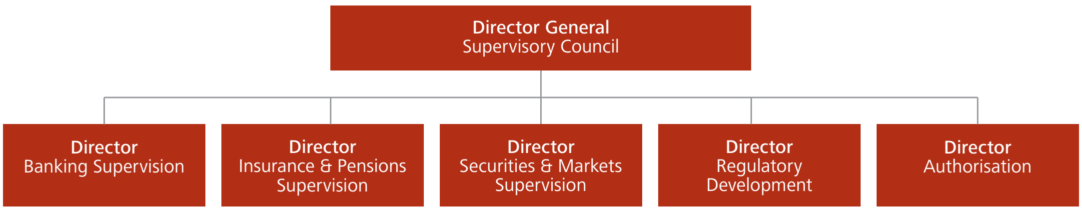
The Legal and International Affairs Office is one of the statutory organs of the Authority and some of its primary functions are set out in the Act. These include the provision of legal advice and assistance to all the organs of the Authority. In addition to serving as secretary to the Board of Governors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

Chart 2: Composition of the Co-ordination Committee



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

Chart 3: The Supervisory Council



Supervision Units:

Banking Supervision Unit: responsible for the supervision of credit and financial institutions.

Insurance and Pensions Supervision Unit: responsible for the supervision of insurance companies, insurance intermediaries, insurance management companies and pension schemes.

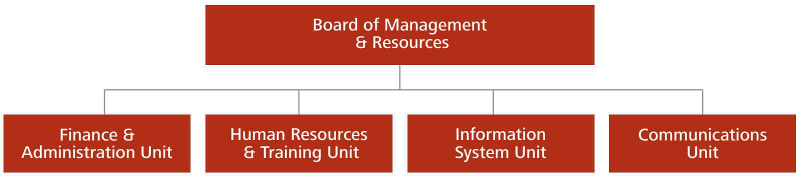
Securities and Markets Supervision Unit: responsible for the supervision of investment services companies, collective investment schemes, fund management and related fund services operations, admissibility to listing on recognised investment exchanges, trustees and oversight of financial markets.

Regulatory Development Unit: responsible for the implementation of cross-sectoral policies and regulatory developments.

Authorisation Unit: responsible for licensing of all financial services entities.

MANAGEMENT UNITS

Chart 4: Composition of the Board of Management & Resources



Human Resources and Development Unit: 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 training bodies and academic institutions.

Information Technology Unit and Administration and Finance Unit: provide operational support to the other Units and are responsible for managing the Authority's resources efficiently.

Communications Unit: responsible for the preparation of corporate publications, media management and event management. The Unit is also responsible for the development and maintenance of the Authority's internet and intranet site.

CONSUMER AFFAIRS

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.

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 COMMITTEE

The Listing Committee is appointed by the Board of Governors in terms of Article 14 of the Financial Markets Act (Cap. 345). In accordance with the Listing Rules, the Listing Committee is responsible for scrutinising applications prior to admission to listing and ensuring compliance with Listing Rules. The Listing Committee is chaired by Mr David Pullicino and has as members Mr Albert Attard, Mr Saviour Briffa, Dr Andre Camilleri and Mr Paul Spiteri.

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 aimed towards the filling of skills gaps that may be identified within the sector from time to time.

The ECC is chaired by Professor Charles J. Farrugia. It includes representation from the Human Resources 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.

CORPORATE SOCIAL RESPONSIBILITY

During the year, the Authority continued to play an active role in supporting worthy causes in the cultural and social spheres of society. During the year under review, the Authority undertook to sponsor two restoration works in Malta. In June a sponsorship was issued for the restoration of the painting dedicated to the Marrtydom of St Barbara by Agostino Masucci at the Capuchin Friars Minor in Kalkara, while in July the Authority sponsored the restoration of two lateral altars at the Santa Caterina d'Italia Church in Valletta. The Authority also continued providing financial support to the Fondazzjoni Patrimonju Malti.

The Children's Foundation, established by the Authority in 2008, continued providing support to underprivileged children. The Board of the Foundation is composed of Mrs Sonia Camilleri as Chairperson, Mr Marcel Pisani, Ms Josephine Baldacchino and Mr George Spiteri, and Mr Robert Aquilina. Ms Clare Busuttil acts as Secretary to the Board.

During 2011, the Foundation provided financial assistance to various projects in a number of charitable institutions namely, Puttinu Cares, the Children's Homes run by the Church, the Inspire Foundation, the Ursuline Sisters, Dar Merhba Bik, Centru Antida drop-in centre, Appogg and also a number of families who required assistance for specific reasons related to their children.

MARKET OVERVIEW

In the aftermath of the financial crisis, world economies started to show signs of slow recovery. This improvement was however soon overshadowed by yet more market uncertainty and economic turmoil. The international economic environment in 2011 was dominated by slow economic growth in all regions; persistent unemployment in the US and Europe; implementation of austerity measures to curb excessive national debt; and bailout requests from Ireland, Greece, and Portugal to avert default on the Euro. All of this contributed to slow economic growth together with sovereign credit rating downgrades which continued to dampen investor confidence hence calling for further reform and stability mechanisms by policy makers. 2011 was also marked by uprisings in a number of Arab countries, events that unavoidably also contributed to market uncertainty and oil price volatility.

The international scenario presented a number of challenges to the Maltese economy. Nonetheless, provisional estimates indicate that during 2011 Malta's Gross Domestic Product grew by 2.1 per cent in real terms. The financial intermediation sector continued to show signs of expansion, contributing 8 per cent to total Gross Value Added as at end of 2011, as against 7.3 per cent in 2010. The Malta Financial Services Authority also registered significant growth in the number of investment services companies licenced in Malta, the majority being Professional Investor Fund schemes. Moreover growth was also registered in the number of insurance companies licensed to undertake non-life insurance services.

The financial services sector is becoming increasingly important to the Maltese economy. The World Economic Forum's Global Competitive Index 2011-2012 ranked Malta at 15th position out of 142 countries in terms of Financial Market Development. Malta's banking system was also ranked as the 12th soundest.

The success of the financial services sector is underpinned by a number of factors including the country's financial stability, a high level of economic and business freedom, the good reputation enjoyed by regulators, government political backing for the financial services industry, an experienced and qualified labour force, transparency and predictability of regulations, and good communications.

BANKING

General Overview

The Maltese banking sector remained resilient due to its strong capital base and liquidity of Maltese banks. In light of the changing economic and financial environment, the banking sector will however continue to face challenges particularly with respect to tougher regulation and higher capital requirements.

Credit Institutions

The Maltese banking sector comprises 25[1] credit institutions, with three institutions being majority Maltese owned and 22 foreign owned. Fourteen of the foreign credit institutions are subsidiaries of EU institutions, six are subsidiaries of non-EU institutions and another two are branches of non-EU institutions.

[1] *In addition to these, a branch of an EU bank also operates in Malta through the freedom of establishment.*

Branch Network and Electronic delivery channels

At end 2011, there were 137 bank offices and branches throughout Malta while the number of ATMs reached 196. The number of cards with a cash function totalled 737,700 while there were over 12,500 POS terminals distributed across the country.

Table 1: Bank offices, ATMs, POS terminals, and payment cards in Malta (2009 – 2011).

	2009	2010	2011
Bank offices	133	136	137
ATMs	179	185	196
POS terminals	11,438	11,984	12,516
Payment cards	640,922	687,679	737,700

Source: Malta Financial Services Authority

The figures available with respect to the volume and segmentation of business for 2011 in respect of a number of credit institutions were still unaudited at the time of presentation of this report and consequently may be subject to revision.

For the purposes of following sections, the aggregate banking sector comprises all 25 credit institutions licensed by the MFSA as well as a foreign branch which operates in Malta through the freedom of establishment. The sub-classification 'domestic banking sector' denotes institutions whose business is wholly or partly carried out with residents of Malta. This is made up of nine credit institutions and a branch of an EU bank which operates in Malta through the freedom of establishment.[2]

Capital Requirements Ratio

The capital requirements ratio of the aggregate banking sector [3], defined as the percentage of the aggregate banks' total own funds to their total risk-weighted assets, remained almost unchanged at 57 per cent in 2011 as the previous year. Risk-weighted assets and total own funds declined slightly, almost at the same pace, as the previous year. The ratio has increased significantly in 2010 as a result of new credit institutions which were licensed during the year and accordingly have pushed up the level of the total own funds. The ratio increased slightly in the domestic banking sector, from 16 per cent in 2010 to 16.4 per cent in 2011.

[2] *The selected banks are APS Bank Ltd, Banif Bank (Malta) plc, Bank of Valletta plc, Bawag Malta Bank Ltd, Credit Europe Bank NV Malta Branch, Fimbank plc, HSBC Bank Malta plc, Lombard Bank Malta plc, Mediterranean Bank plc, and Volksbank Malta Limited.*

[3] *Foreign branches which operate in Malta are not required to calculate the capital requirements..*

Table 2: Capital requirements ratio and ratio of original own funds

		2009	2010	2011
Aggregate banking sector	Capital requirements ratio (%)	24.3	57.1	56.8
	Original own funds to risk-weighted assets (%)	23.5	54.7	54.3
Domestic banking sector	Capital requirements ratio (%)	16.3	16.0	16.4
	Original own funds to risk-weighted assets (%)	17.2	12.7	12.9

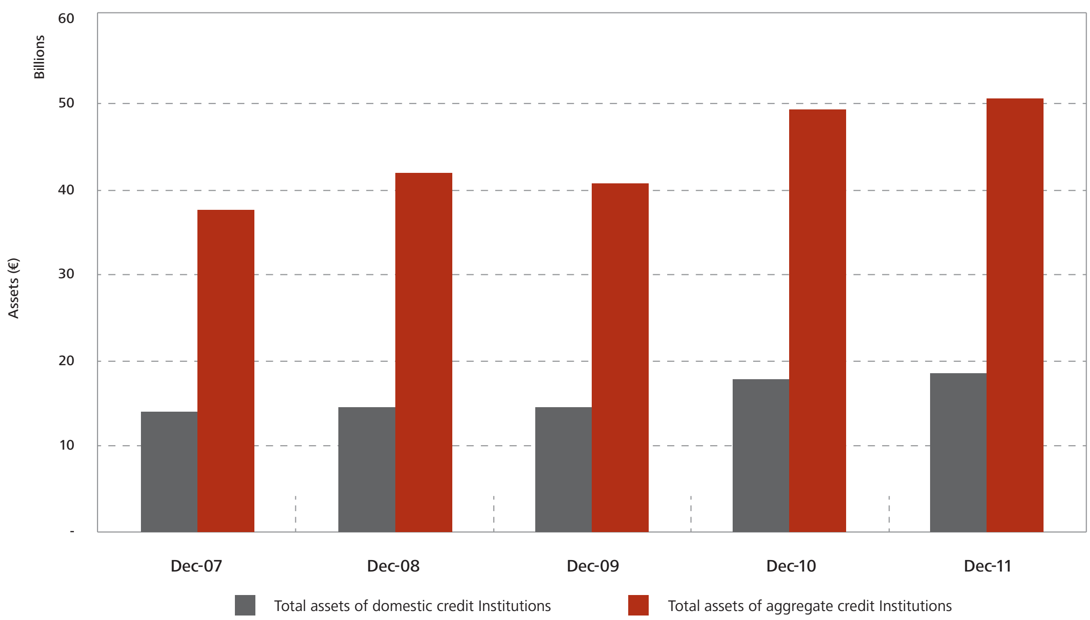
Source: Malta Financial Services Authority

The aggregate original own funds expressed as a percentage of total risk-weighted assets also remained nearly unchanged at 54 per cent in 2011 from the previous year after it increased substantially in 2010 due to reasons already explained. In the domestic banking sector, the ratio remained almost unchanged at the same level reached in the previous year.

Bank Assets

Assets of the aggregate banking sector in Malta continued to expand in 2011, reaching almost €50.7 billion in 2011. This represents an increase of around 2.4 per cent (or €1.2 billion) over the previous year and 24.3 per cent (or €9.9 billion) over 2009. There was also an increase of four per cent in the assets of the domestic banking sector in Malta, from €17.9 billion in 2010 to €18.6 billion in 2011. Assets of the domestic banking sector represented almost 37 per cent of the total assets of the aggregate banking sector in Malta in 2011, as against 36 per cent in 2010.

Chart 5: Assets of aggregate credit institutions against assets of domestic credit institutions (2007 – 2011).



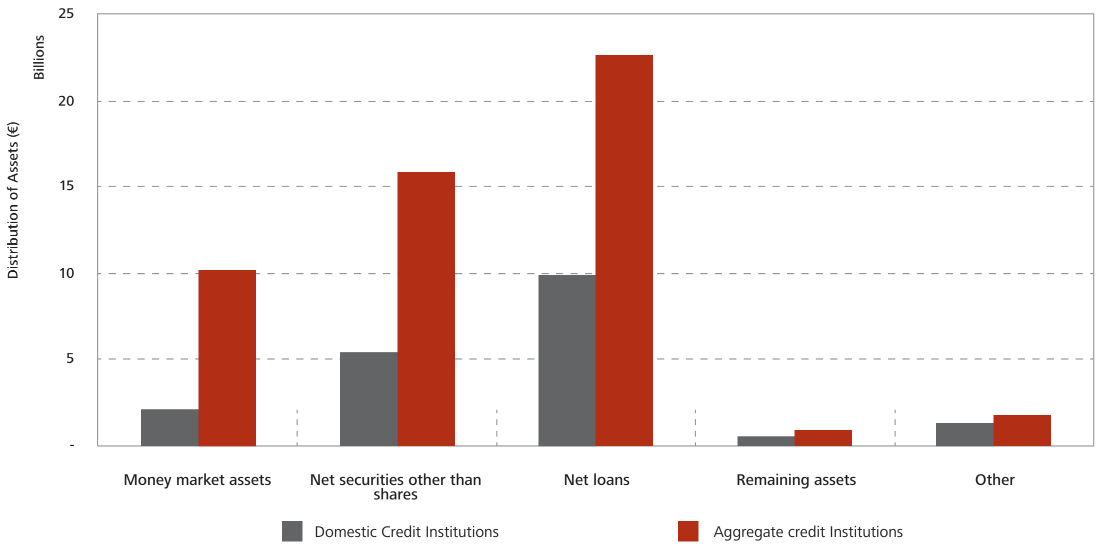
Source: Malta Financial Services Authority.

Distribution of Bank Assets

In the aggregate banking sector, 'Net loans' accounted for the largest allocation with almost €23 billion or 45 per cent of the total assets in 2011. This however represents a reduction of around 7.6 per cent from the previous year. 'Net securities other than shares' and 'money market assets' followed at 31 per cent and 20 per cent of the total assets in 2011 respectively. The corresponding shares for 2010 were 29 per cent and 18 per cent of the total assets respectively.

In the domestic banking sector, 'Net Loans' contributed around 54 per cent of the total assets distribution in 2011. The share increased slightly (0.7 per cent) from the previous year. 'Net securities other than shares' followed at 29 per cent (28.2 per cent in 2010) and 'money market assets' at 10.7 per cent (9.4 per cent in 2010).

Chart 6: Distribution of assets of the aggregate banking sector against domestic banking sector in 2011.



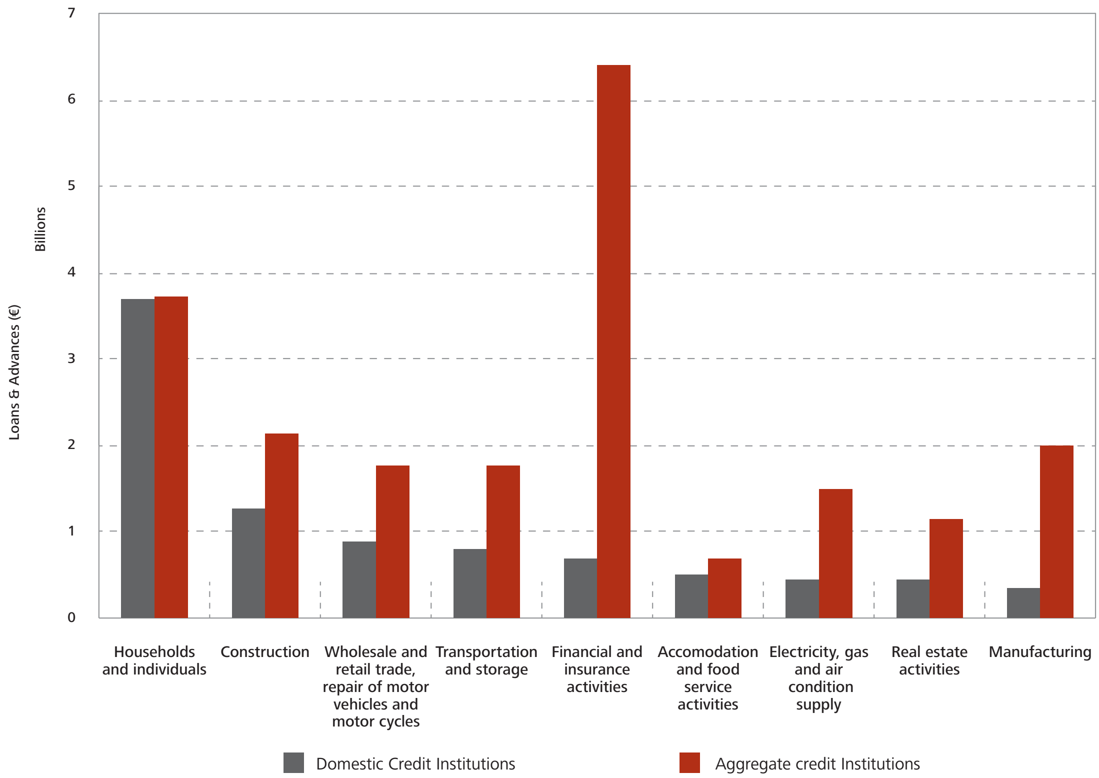
Source: Malta Financial Services Authority

Loans and advances by sector

Loans and advances in the aggregate banking sector amounted to €23.2 billion, a drop of €1.9 billion or 7.5 per cent over 2010. In contrast to the aggregate banking sector, loans and advances in the domestic banking sector grew by almost €0.1 billion or one per cent over the previous year. Over the previous period (2009 to 2010) loans and advances in the aggregate banking sector had gone up by 11.6 per cent while loans and advances in the domestic banking sector had gained 16.8 per cent over the same period.

A sectoral analysis of the aggregate banking lending in 2011 indicates that 27.6 per cent of the loans were advanced to the 'Financial and insurance activities' sector, 16 per cent to 'Households and Individuals', followed by the 'Construction' sector at nine per cent. In the domestic banking sector, 'Households and Individuals' accounted for 36.3 per cent, 11.9 per cent for the 'Construction' sector and 'Wholesale and retail trade, repair of motor vehicles and motor cycles' sector at nine per cent.

Chart 7: Loans and advances of top nine sectors in 2011 (Domestic credit institutions against aggregate credit institutions).Loans and advances by sector



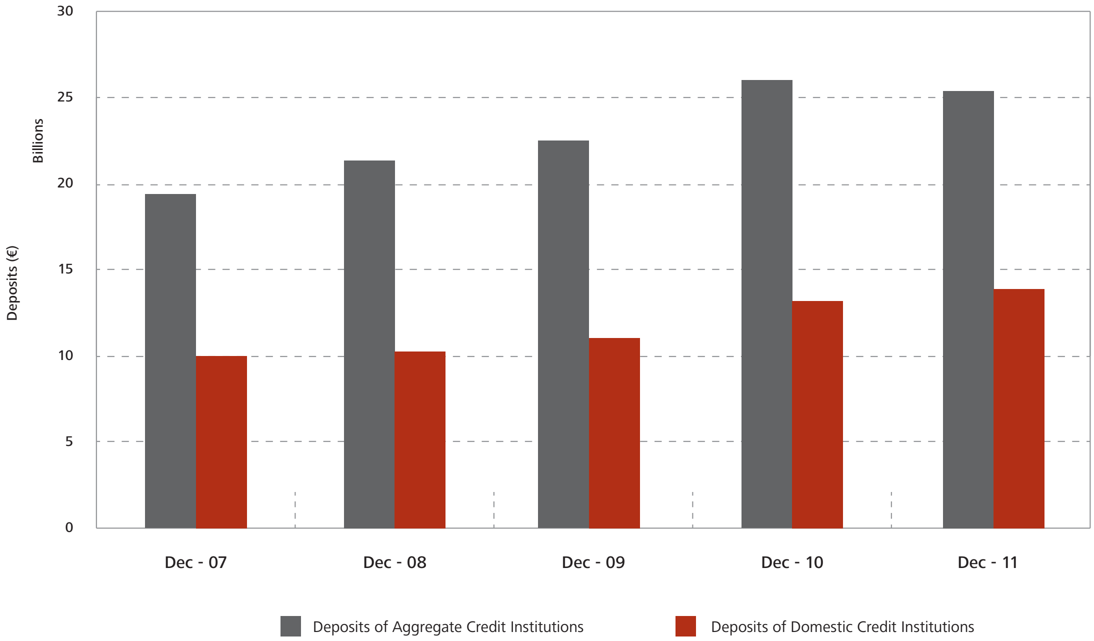
Source: Malta Financial Services Authority

Bank Deposits

Deposits in the aggregate banking sector reached over €25.5 billion in 2011, a decline of over half a billion euro, or two per cent, over the previous year. The fall in the deposits in the aggregate banking sector follows years of growth that have seen deposits rising by almost 124 per cent over the period 2004 – 2010.

Despite the drop in deposits in the aggregate banking sector, deposits in the domestic banking sector expanded by around 3.4 per cent (or over €0.4 billion) over the period 2010 – 2011. Deposits in the domestic banking sector totalled over €13.1 billion in 2011 or 52 per cent of the total aggregate deposits (compared to 49 per cent in 2010).

Chart 8: Bank deposits of aggregate credit institutions against domestic credit institutions (2007 – 2011).



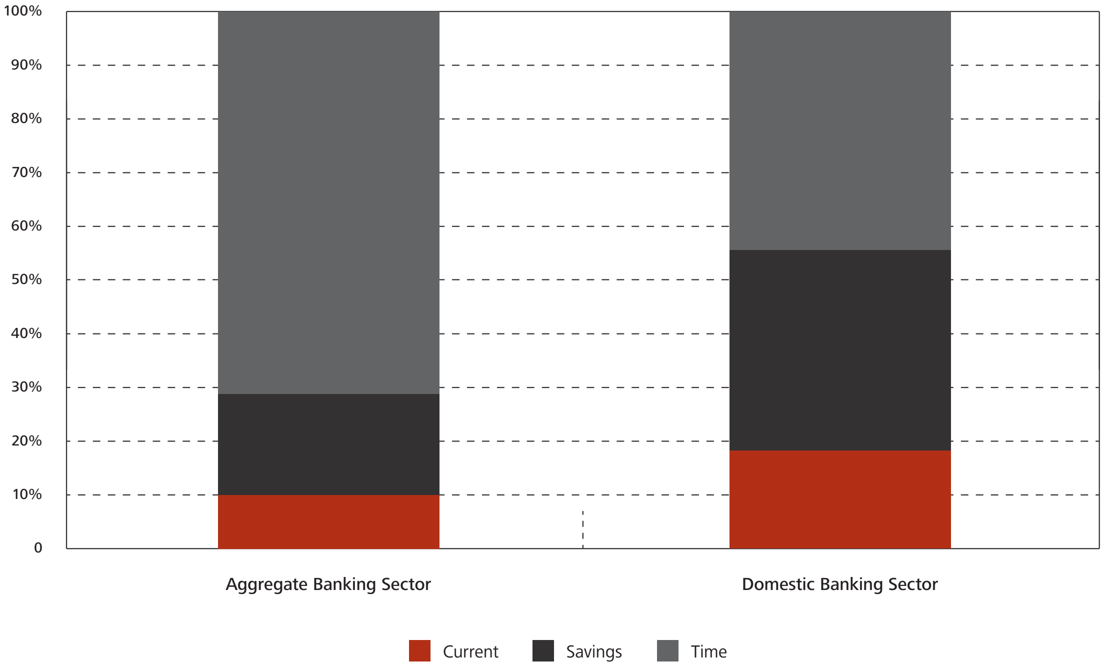
Source: Malta Financial Services Authority

Distribution of bank deposits

In the aggregate banking sector, 71.4 per cent of the total deposits in 2011 were time deposits, 18.8 per cent were savings accounts while current accounts had a share of 9.8 per cent.

The distribution of deposits in the domestic banking sector was as follows: 46 per cent were time deposits, 35.9 per cent savings accounts and 18.1 per cent current accounts.

Chart 9: Distribution of bank deposits in 2011 (Domestic credit institutions against aggregate credit institutions).

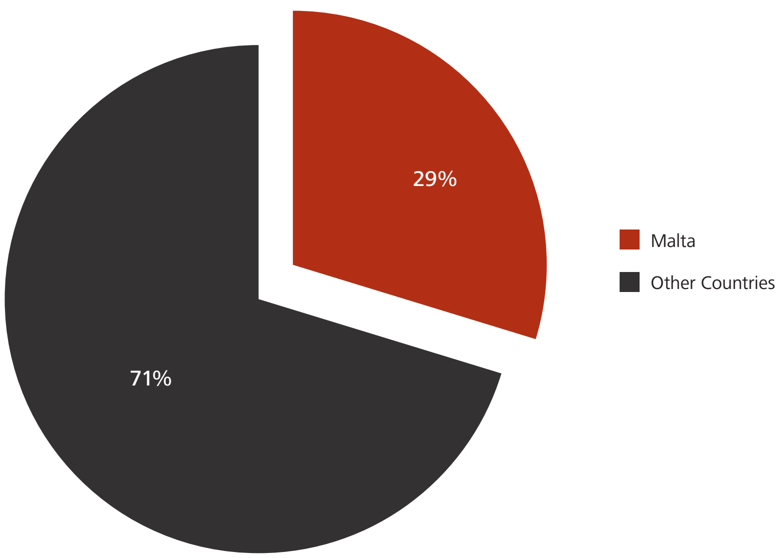


Source: Malta Financial Services Authority

Lending and Borrowing

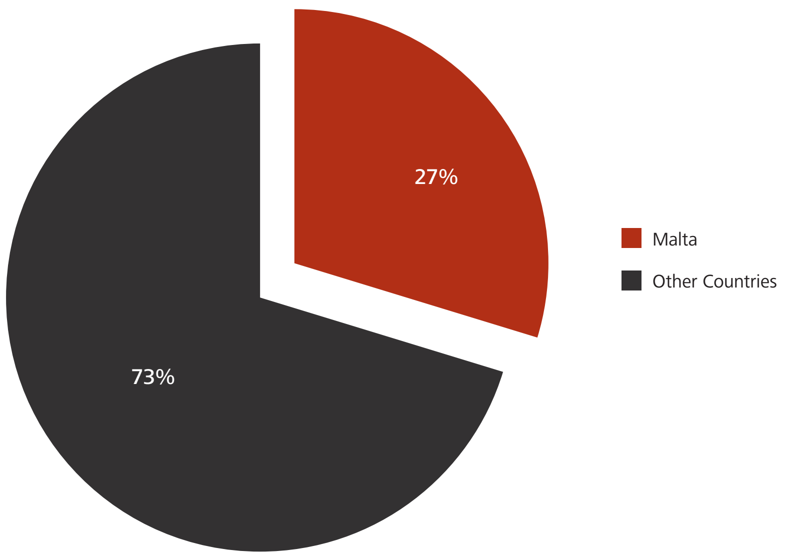
An analysis was carried out on the level of lending and borrowing by all credit institutions in Malta in 2011. Charts 10 and 11 represent the level of banks' lending and borrowing respectively with Malta residents and other countries in 2011.

Chart 10: Placements and loans - 2011



Source: Malta Financial Services Authority

Chart 11: Borrowings and deposits - 2011



Source: Malta Financial Services Authority

SECURITIES AND INVESTMENT SERVICES

General Overview

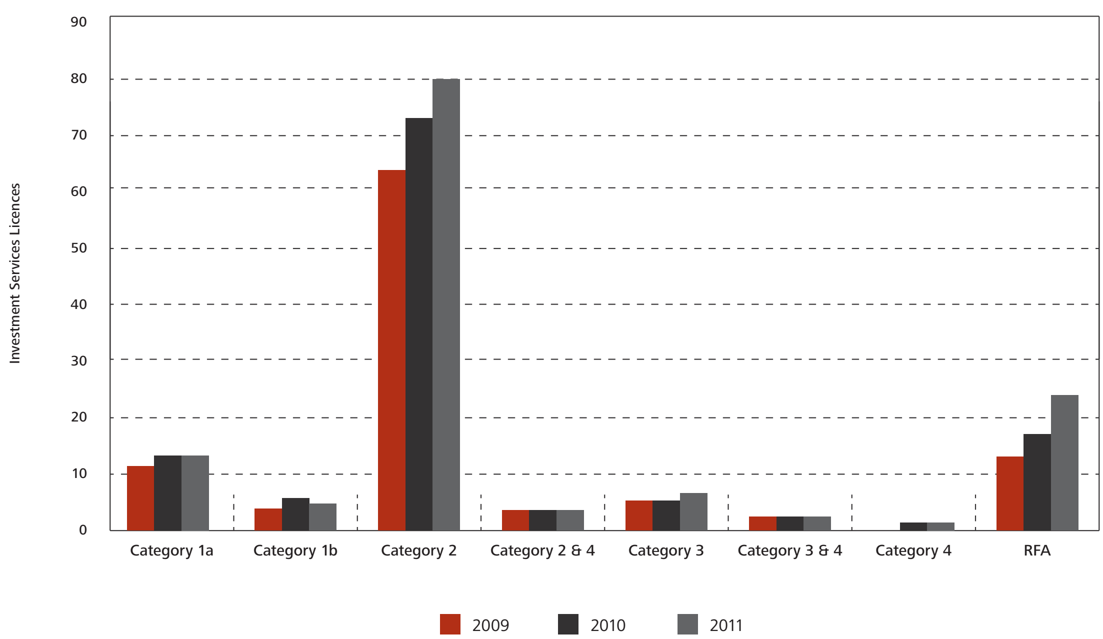
The investment services sector is the fastest growing financial sector in Malta, with Professional Investor Funds being a key contributor to the sector's success. Furthermore, the transposition of UCITS IV directive into national legislation opened up new possibilities in the management and structuring of funds. The sector is now also supported by a strong network of recognised fund administrators. With all the necessary infrastructure in place, the investment services sector is envisaged to continue expanding, serving not only the domestic market but also the international market.

Investment Services Licences

The number of investment services providers authorised in Malta has continued to grow. The Authority licensed 16 new investment services companies, 15 at Category 2 level and one in Category 1A. There were 109 investment services licences as at end 2011, a net increase of almost seven and 24 per cent over 2010 and 2009 respectively. The number of Category 2 licence holders continued to grow, from 64 licences in 2009 to 80 licences in 2011.

There was also a surge in the number of recognised fund administrators, with six new recognition certificates issued by the Authority. As at end 2011, there were 24 recognised fund administrators; 11 more than in 2009. Chart 12 illustrates the increasing trend of authorised investment service providers over the period 2009 -2011.

Chart 12: Investment services licences (2009 – 2011).



Source: Malta Financial Services Authority

Collective Investment Schemes Licences

During 2011, the Authority issued 179 new Collective Investment Scheme licences (including sub-funds), of which 163 were Professional Investor Funds (PIFs), 14 UCITS funds and two Non-UCITS funds. The number of new licensed Professional Investor Funds in 2011 went up by almost 60 per cent over the previous year.

Table 3: New Collective Investment Schemes (including sub-funds) (2009 – 2011).

	New in 2009	New in 2010	New in 2011	Total new licences (2004 - 2011)
PIFS	102	102	163	623
UCITS	3	5	14	73
Non UCITS	-	-	2	24
Private	-	1	-	3
Total	105	108	179	723

Source: Malta Financial Services Authority

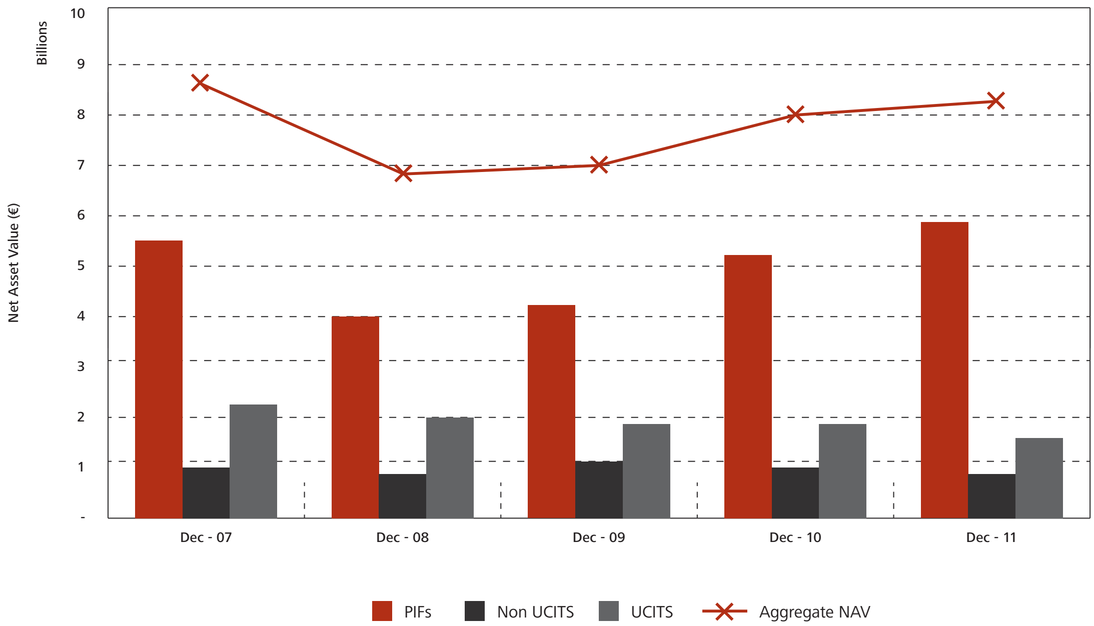
During the year, the Authority accepted the surrender of 24 Professional Investor Funds, five UCITS funds and one Non-UCITS fund. Two Professional Investor funds had their licence withdrawn by the Authority.

Additionally, 164 non-Malta domiciled funds (including sub-funds) were serviced by Malta-based fund administration companies in 2011.

Net Asset Value of Locally Based Collective Investment Schemes

The funds sector also registered growth of around 4.2 per cent in aggregate net asset value (NAV) over the previous year. Net asset value totalled over €8.3 billion as at the end of 2011. Despite the growth recorded in net asset value over the last three years, the NAV still remains significantly below the peak value reached in June 2008 when the number of licenced funds was around half the number of licensed funds in 2011.

Chart 13: Net asset value of Malta domiciled funds (2007 – 2011).



Source: Malta Financial Services Authority

The net asset value of Professional Investor Funds totalled over €5.8 billion in 2011, an increase of over 12 per cent over the period 2010 – 2011. The increase was generally contributed by a number of new PIFs which started operating during the year. UCITS and non-UCITS retail funds did not experience the same growth in the net asset value despite a growth in the number these funds. UCITS funds suffered a decline of 10.5 per cent while non-UCITS retail funds lost 10.4 per cent in the net asset value over the period 2010 – 2011. The decline was generally attributed by an increase in the amounts of redemptions and downward asset revaluations.

Management of Collective Investment Schemes

Almost 38 per cent of Malta-domiciled funds (including sub-funds) were managed by Malta-based fund managers. 51 per cent of funds were managed from outside Malta, while about 11 per cent were self-managed.

Table 4: Management of locally based investment funds (2010 – 2011).

	% number of funds (including sub-funds) as at end 2010	% number of funds (including sub-funds) as at end 2011
Self-managed	9.6	10.7
Managed in Malta	43.8	38.4
Managed from outside Malta	46.6	50.9

Source: Malta Financial Services Authority

Administration of Collective Investment Schemes

About 70 per cent of the funds (including sub-funds) domiciled in Malta were administered in Malta in 2011 while almost 30 per cent of the funds (including sub-funds) were administered from outside Malta. The share of funds (including sub-funds) which were self-administered was 0.2 per cent.

Table 5: Administration of locally based investment funds (2010 – 2011).

	% number of funds (including sub-funds) as at end 2010	% number of funds (including sub-funds) as at end 2011
Self-administered	0.5	0.2
Administered in Malta	77.5	70.3
Administered from outside Malta	22.0	29.5

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 (including sub-funds) administered in Malta totalled almost €1.4 billion as at end December 2011, an increase of almost €0.5 billion or 55.6 per cent from 2010.

Table 6: Net asset value of non-Malta domiciled funds (including sub-funds) administered in Malta (2010 - 2011).

	NAV of non-Malta domiciled funds administered in Malta
	Billion Euro
December 2010	0.9
December 2011	1.4

Source: Malta Financial Services Authority

INSURANCE BUSINESS

General Overview

Malta's insurance sector continued to grow as Malta's reputation for innovative financial services and products increased substantially over recent years.

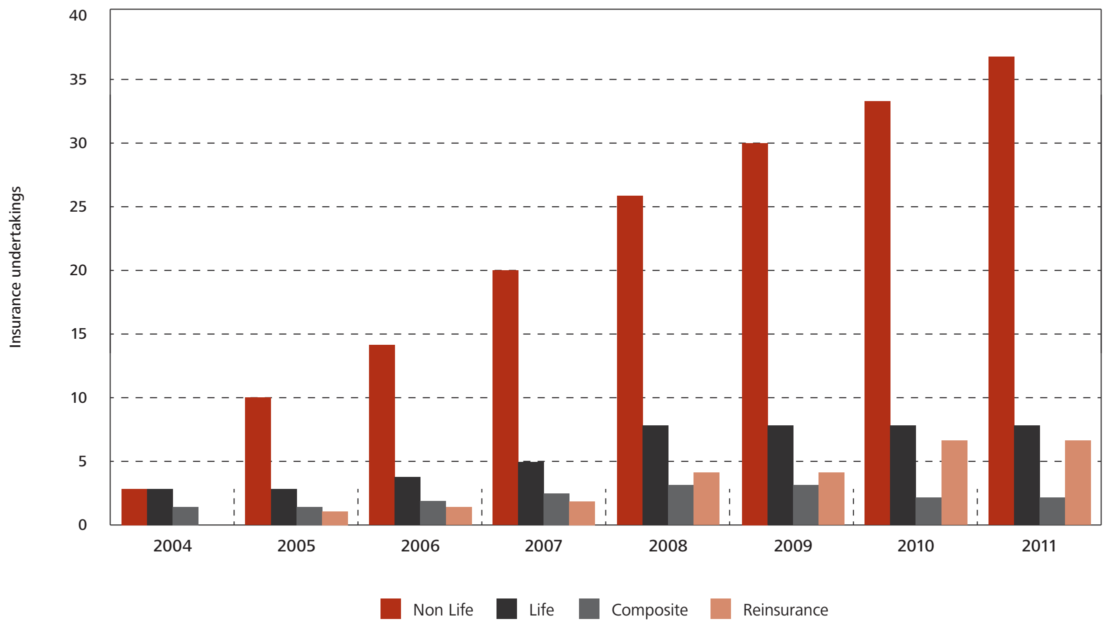
Malta remains the only full EU member state with legislation for Protected Cell Companies (PCCs) and Incorporated Cell Companies (ICCs). Growth was also recorded in the number of new insurance managers licensed throughout the year. The retirement pensions sector has also maintained a positive trend.

The Insurance Sector

At the end of 2011, the insurance sector comprised 54 insurance undertakings, providing insurance services across the 27 European Union states and in other international markets. Six new insurance undertakings were authorised during the year; five undertakings were authorised to carry out non-life business while one undertaking was authorised to conduct business in the life insurance sector.

As at end of 2011, there were 37 authorised non-life insurance undertakings, eight life insurance undertakings, two composite and seven reinsurance undertakings. These figures include ten affiliated insurance undertakings and eight protected cell companies.

Chart 14: Insurance undertakings authorised in Malta (2004 – 2011).



Source: Malta Financial Services Authority

The figures available with respect to the volume and segmentation of business for 2011 were still unaudited at the time of presentation of this report and therefore may be subject to revision.

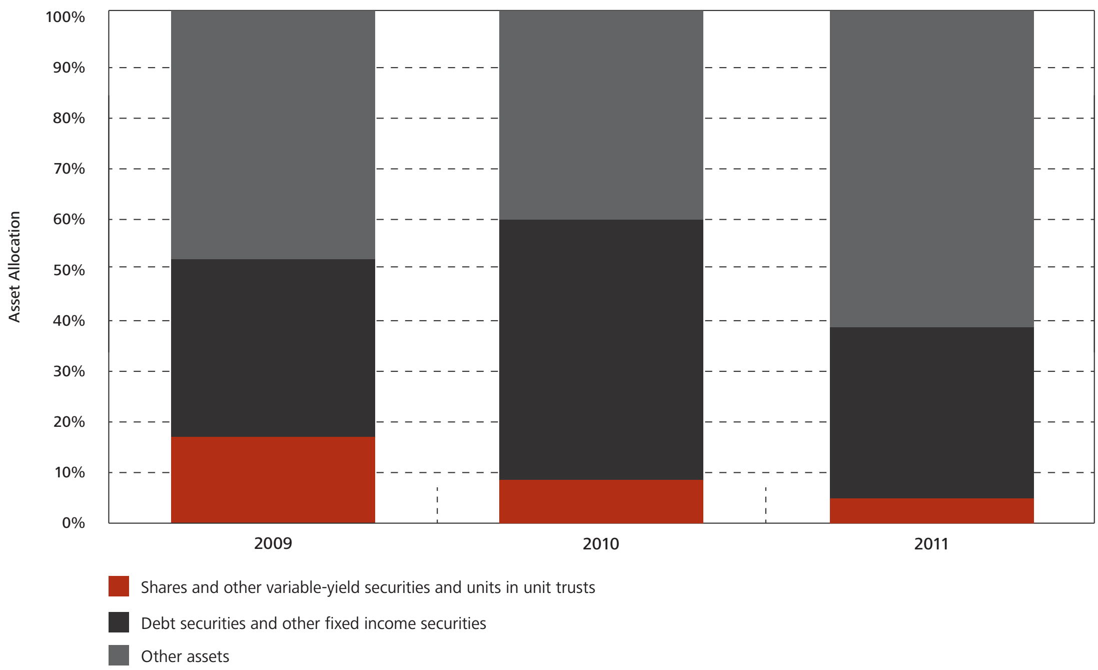
Asset Allocation

Investment assets[2] of all insurance undertakings totalled €8.8 billion in 2011. This represents an increase of around €4.2 billion or 90.3 per cent over 2010.

The composition of investment assets of all insurance undertakings in 2011 was as follows: 'Shares and other variable-yield securities and units in unit trusts' covered five per cent of the total investment assets, 'Debt securities and other fixed income securities' had a share of 34 per cent and 'other investment assets'[3] had an allocation of 61 per cent. There was a fall of 17 percentage points in the allocation of 'Debt securities and other fixed income securities' over the period 2010 – 2011 after the share had risen by 16 percentage points over the period 2009 - 2010. 'Shares and other variable-yield securities and units in unit trusts' declined by four percentage points over the period 2010 – 2011.

[2] *Investment assets exclude investments for the benefit of life-assurance policyholders who bear the investment risk.*
[3] *'Other investments assets' category consists mainly of investments in affiliated enterprises and participating interests, deposits with credit institutions and other financial investments and deposits with ceding enterprises.*

Chart 15: Asset allocation of insurance undertakings (2009-2011).



Source: Malta Financial Services Authority

Financial strength and performance

The solvency cover, defined as the ratio of available capital to required regulatory capital, of the aggregate insurance undertakings contracted from 470 per cent in 2010 to 385 per cent in 2011.

The solvency cover for the life business continued to diminish in 2011, from 199 per cent in 2009 to 179 per cent in 2011. This was generally attributed to an increase in the levels of available capital that was lower than the increase in the capital requirements. For reinsurers, the solvency cover in 2011 fell back to almost the level reached in 2009 after it had grown substantially in 2010. In the general business sector the ratio also dropped after it had surged by 78 percentage points in the previous year. Table 7 shows the solvency cover for life business, reinsurance, general businesses as well as aggregate figures for the insurance market for the period 2009 – 2011.

Table 7: Solvency covers (2009 – 2011).

Solvency Cover	2009	2010	2011
Life business	199%	183%	179%
Reinsurers	496%	876%	503%
General Business	320%	398%	367%
All Insurance undertakings	309%	470%	385%

Source: Malta Financial Services Authority

Total Gross Premiums Written

Total gross premiums written in the insurance sector (life and non-life) amounted to almost €2.2 billion in 2011. This represents an increase of 45.8 per cent over 2010 and almost 111 per cent over 2009.

Table 8: Total gross premiums written (2009 – 2011).

	2009	2010	2011
	€	€	€
Total gross premiums written	1,043,748,000	1,511,192,000	2,202,921,581

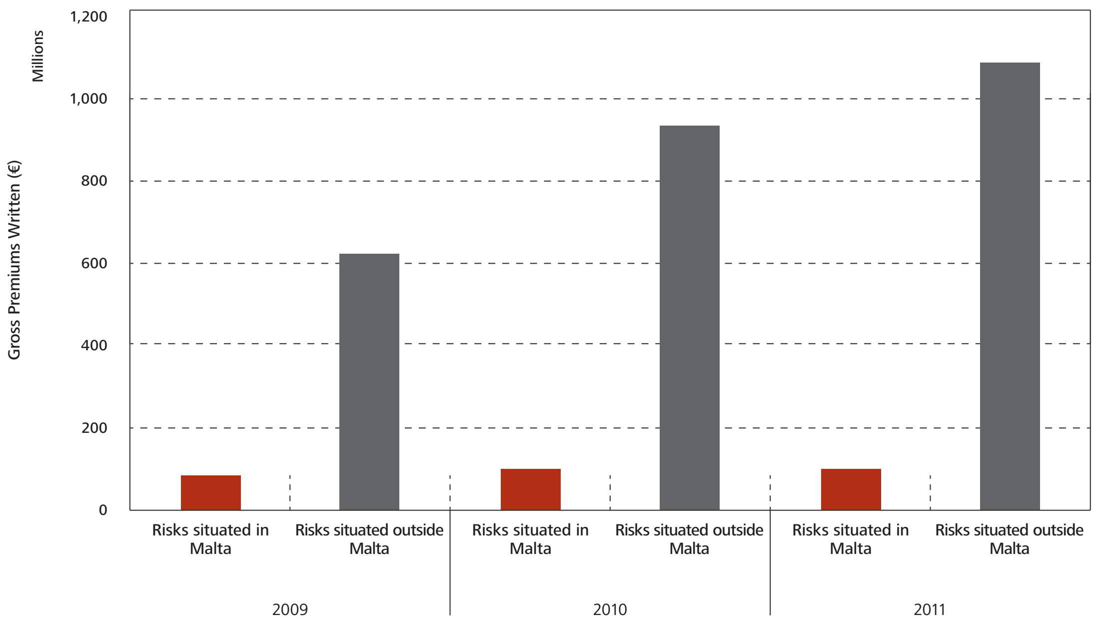
Source: Malta Financial Services Authority

THE GENERAL BUSINESS SECTOR

Gross Premium Written

Insurance undertakings with a Head Office in Malta reported an increase of 15.7 per cent in the gross premiums written for general business over the period 2010 - 2011, from around €1.03 billion in 2010 to €1.19 billion in 2011.
Gross premiums written in relation to risks situated outside Malta went up from €0.92 billion in 2010 to around €1.1 billion in 2011, an increase of almost 18 per cent. In relation to risks situated in Malta, gross premiums written fell from €103.6 million in 2010 to €99.4 million in 2011, a drop of over four per cent. Chart 16 shows the total gross premiums written by companies with Head Office in Malta in respect to risks situated in Malta and outside Malta for the period 2009-2011.

Chart 16: Total gross premiums written by companies with Head Office in Malta - General Business (2009 – 2011).



Source: Malta Financial Services Authority

Claims Paid

Gross claims paid by insurance undertakings with Head Office in Malta went up from €372 million in 2010 to over €481 million in 2011. This implies a growth of around 29 per cent over the period 2010 – 2011. Although there was a reduction of two per cent in the gross claims paid in relation to risks situated in Malta, gross claims paid in relation to risks situated outside Malta grew by almost 34 per cent over the period 2010 – 2011.

Table 9: Total gross claims paid by companies with Head Office in Malta – General Business (2009-2011).

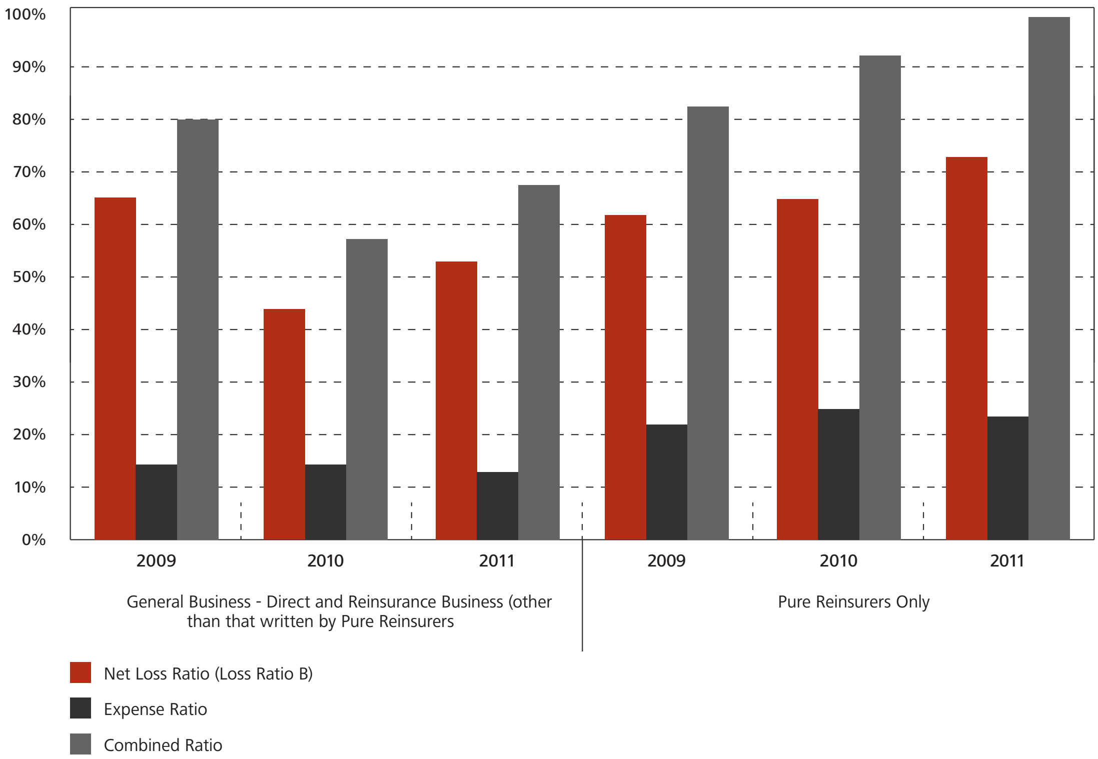
	2009		2010		2011	
	Risks situated in Malta	Risks situated outside Malta	Risks situated in Malta	Risks situated outside Malta	Risks situated in Malta	Risks situated outside Malta
	€	€	€	€	€	€
Total Gross claims paid	44,786,000	255,213,000	46,310,000	325,352,000	45,378,212	435,911,108

Source: Malta Financial Services Authority

Key financial indicators of non-life undertakings

The net loss ratio, defined as the ratio of net claims incurred to net premiums earned, for the general business (direct and reinsurance business other than that written by Pure Reinsurance) increased from 42.7 per cent in 2010 to 54.5 per cent in 2011. The surge in the net loss ratio is attributed to larger percentage increase in the net claims incurred (2010: €201.1m, 2011: €286.2m) than the net premiums earned (2010: €471.2m, 2011: €526.4m). The expense ratio, defined as the ratio of net operating expenses to net premiums earned, went down slightly in 2011 from 2010. This was mainly due to a larger percentage increase in net premiums earned than the percentage increase in operating expenses over the period 2010 – 2011.

Chart 17: Loss ratios for General Business undertakings writing direct and reinsurance business (other than that written by Pure Reinsurance) and Pure Reinsurance undertakings only (2009 – 2011).



Source: Malta Financial Services Authority

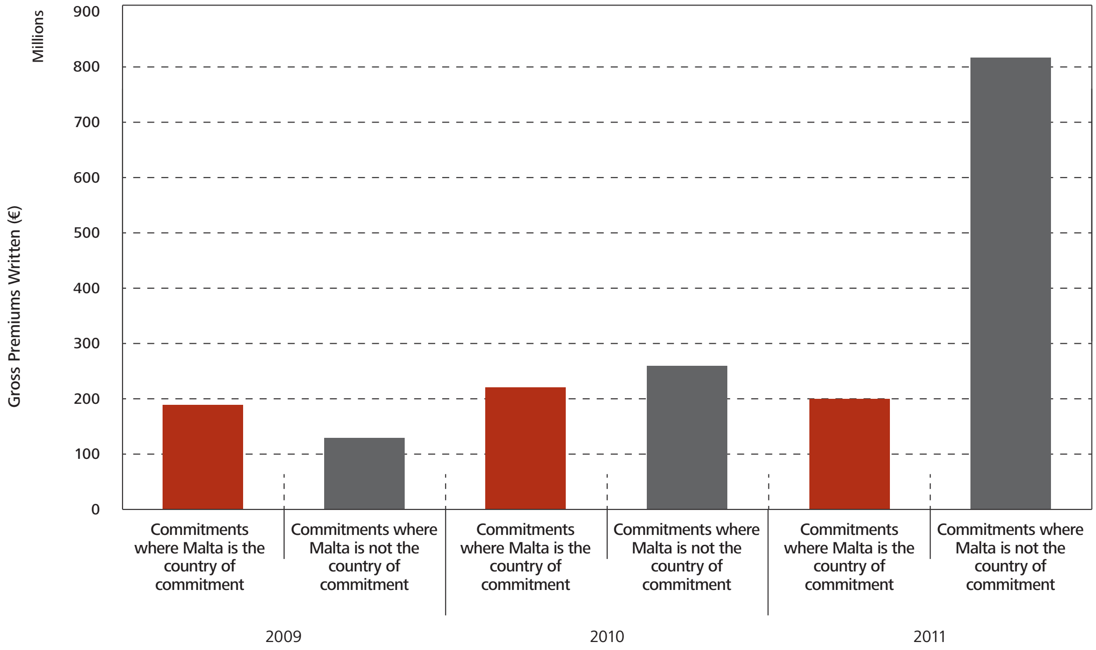
For the pure reinsurance business, the net loss ratio increased from 67 per cent in 2010 to 73.9 per cent in 2011 while the expense ratio decreased slightly by 0.8 percentage points over the period 2010 – 2011. The rise in the net loss ratio is attributed to a percentage increase in the net claims incurred (2010: €160.4m, 2011: €245.4m) larger than the increase in net premiums earned (2010: €234.5m, 2011: €332.1m).

THE LIFE INSURANCE SECTOR

Gross Premiums Written

Life insurance undertakings with a Head Office in Malta reported a significant growth of 109 per cent in the gross premiums written over the previous year - going from €485 million in 2010 to over one billion euro in 2011. The increase was attributed to commitments outside Malta where gross premiums written went up from €259 million in 2010 to €813 million in 2011, a surge of nearly 214 per cent over the same period. With respect to commitments in Malta, gross premiums written fell by 10.5 per cent, from €226 million in 2010 to €202 million in 2011.

Chart 18: Total gross premiums written by companies with Head Office in Malta - Life Insurance Business (2009 – 2011).



Source: Malta Financial Services Authority

Claims Paid

There was a substantial increase in the total claims paid in the life insurance sector, from €205 million in 2010 to €658 million in 2011. This reflects a rise of over 221 per cent over the period 2010 – 2011.

Table 10: Total gross claims paid by companies with Head Office in Malta – Life Insurance Business (2010-2011).

	2010		2011	
	Risks situated in Malta	Risks situated outside Malta	Risks situated in Malta	Risks situated outside Malta
	€	€	€	€
Total gross claims paid	109,133,000	95,692,000	137,268,699	520,256,046

Source: Malta Financial Services Authority

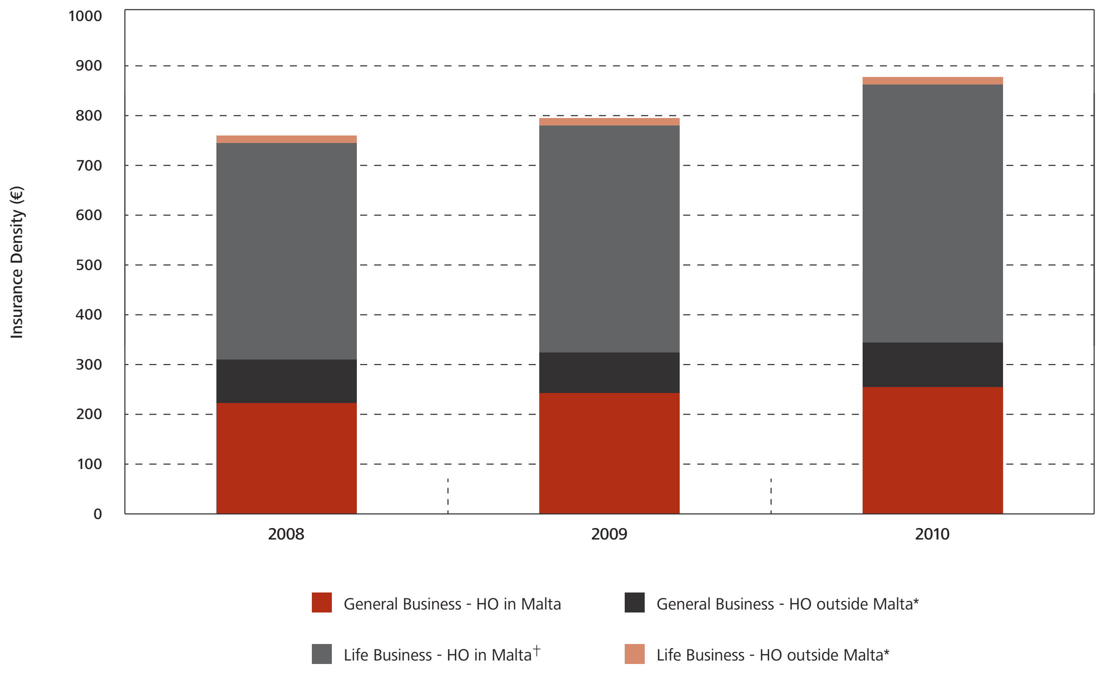
Gross claims paid with respect to risks situated in Malta increased by 26 per cent over the period 2010 – 2011. Over the same period, gross claims paid with respect to risks situated outside Malta went up by 444 per cent.

Insurance Density

Insurance density, defined as the gross premiums written with respect to risks and commitments situated in Malta on a per capita basis, went up in both the general business and life business in 2010 over the previous year.

A per capita average of €325 was spent on general business insurance in 2010, a rise of over 5.5 per cent over the previous year. A per capita average of €545 was spent in the life business in 2010, indicating a growth of almost 14 per cent over 2009.

Chart 19: Insurance density with respect to risks and commitments situated in Malta (2008-2010).



Source: Malta Financial Services Authority

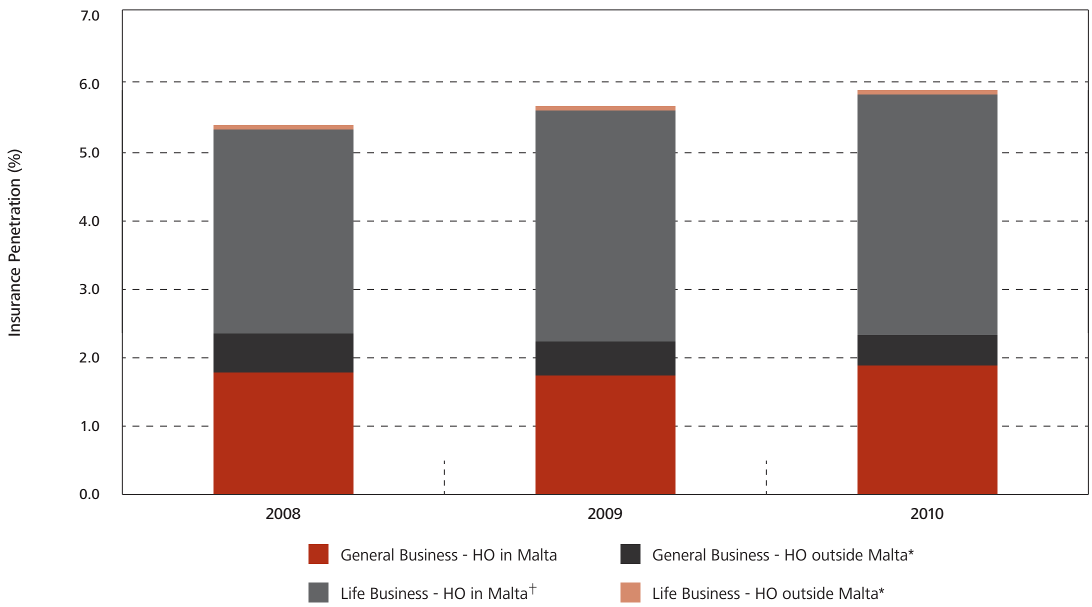
** refers to non-EU/EAA insurers authorised under the Act and EU/EEA insurers carrying out business in Malta under the right of establishment.*
† Life business includes investment contracts without discretionary participation features.

Insurance Penetration

The insurance penetration rate, defined as the premiums volume with respect to risks and commitments situated in Malta as a share of the GDP[4], increased from 5.6 per cent in 2009 to almost 5.9 per cent in 2010. This represents an increase of 0.3 percentage points over the period 2009 – 2010.

In the general business, the penetration rate remained almost unchanged at 2.2 per cent in 2010 from 2009. The rate increased by 0.3 percentage points in the life business, from 3.4 per cent in 2009 to 3.7 per cent in 2010.

Chart 20: Insurance penetration rate with respect to risks and commitments situated in Malta (2008-2010).



Source: Malta Financial Services Authority

** refers to non-EU/EAA insurers authorised under the Act and EU/EEA insurers carrying out business in Malta under the right of establishment.*
† Life business includes investment contracts without discretionary participation features.

Retirement Pension Schemes

The number of registered retirement schemes rose from six registrations in 2010 to 13 in 2011. The Authority issued seven new retirement scheme certificates of registration in 2011 after it had authorised six new registrations in 2010. [5]

Table 11: Retirement scheme licences (2010-2011)

	Retirement Scheme licences
2010	6
2011	13

Source: Malta Financial Services Authority

At the end of 2011 retirement schemes registered with the Authority had assets under management totalling almost €48.7 million.

[4] *GDP computed at market price.*
[5] *The MFSA started authorising the first certificates of registration in 2010 under the Special Funds Act.*

SUPERVISION AND COMPLIANCE

In terms of Article 10 of the Malta Financial Services Authority Act, the Supervisory Council is responsible for the processing, approval and issuing of licences and other authorisations, and for the monitoring and supervision of persons and other entities licensed or authorised by the Authority. During 2011, the Council met 34 times to approve new authorisations, enrolments and registrations to conduct financial services business.

The requirements which an applicant applying for a licence must satisfy are contained in laws and regulations specific to the various sectors of financial services. However, when considering whether to grant or refuse a licence, the Authority will also consider factors such as:

i. the promotion of the general interests and legitimate expectations of consumers of financial services
ii. the promotion of fair competition and choice
iii. Malta's international commitments including its commitments as a Member of the European Union

The Supervisory Council seeks to maintain a balance between the requirements specific to each sector, reflecting international standards and European Union Directives, and the need to ensure more consistent and harmonised supervision across sectors.

SUPERVISORY ACTION

In 2011 the Authority had over 84 employees directly engaged in the licensing, regulation and supervision of licensed entities. Supervision is carried out through both off-site and on-site compliance activities. Off-site compliance staff monitored adherence by licence holders to prudential requirements through the review of periodical returns, audited financial statements and other documentation. Changes in the qualifying shareholding, directors and senior management and in the memorandum and articles of licensed companies were also reviewed prior to approval.

As part of their off-site supervisory function, the Securities and Markets Supervision Unit also monitored media advertising issued by authorised persons and newspaper articles and media coverage dealing with companies which have their financial instruments traded on the Malta Stock Exchange.

The Insurance and Pensions Supervisory Unit regularly reviewed the monthly/quarterly management accounts which are submitted by insurance companies and insurance intermediaries in accordance with the applicable legislation. Where regulatory issues were identified, the licence holders concerned were approached and given a timeframe within which to address the issues.

On-site inspections at the premises of licence holders continued to be carried out on a regular basis. Through their reviews, the supervisors seek to ensure that licence holders' operational activities are in line with the licence conditions and applicable legislation. On-site inspections serve to ensure that the corrective measures were being taken by licensees in relation to weaknesses or shortcomings identified as a result of previous on-site visits or through external auditors' annual statutory reviews. The MFSA continues to adopt a risk-based approach in the supervision of licensed entities, in line with EU Directives.

A total of 53 on-site inspections were carried out by the Supervisory Units during the year. 16 inspections were carried out at insurance licence holders premises (nine to insurance companies and seven to intermediaries). One visit was made to a retirement scheme administrator (Pensions). 10 inspections were carried out at investment intermediaries, and 13 to Trustees and Fiduciaries. 10 inspections were undertaken to credit institutions, and 3 to financial institutions.

The Banking Supervision Unit's on-site tasks during the past year included the conduct of credit risk analysis at a number of credit institutions as well as a number of top-down inspections at two banks. The Unit also conducted top-down reviews of operations at three financial institutions and carried out high-level off-site analysis of the credit institutions' Internal Capital Adequacy Assessment Process (ICAAP) in relation to all those banks which were required to submit their ICAAP documents for the year ending 31 December 2010.

Among other review actions, the Securities and Markets Supervision Unit analysed the reports of investment services licence holders' Risk Management Internal Capital Adequacy Assessment Process (RMICAAP) which were requested by the Authority in the course of on-site inspections.

A number of investigations into possible breaches of licence conditions were initiated or continued during the year. These included investigations into alleged breaches of investment restrictions by a number of licensed Professional Investor Funds and investment service providers, as well as investigations into sales practices and possible breaches of conduct of business requirements. Some of these investigations were still underway as at the end of 2011.

INVESTIGATIONS

The MFSA publishes the results of investigations on its website:
http://www.mfsa.com.mt/pages/AdministrativeMeasuresPenalties.aspx

During the year under review, the MFSA investigated possible breaches of licence conditions in connection with the sale of units in licensed investment products. A number of these investigations were either finalised or had reached an advanced stage by the end of the year. In particular, the MFSA conducted three separate investigations into the manner in which a property fund was managed and promoted, as well as into how units in the Fund were redeemed. The MFSA also investigated the sale of perpetuals and other preferred securities by a credit institution. These investigations were carried on from the previous year and are briefly summarised below.

Investigations overview

The property fund investigated was a sub-fund of a Collective Investment Scheme. It was licensed in September 2005 as a professional investor fund targeting experienced investors. The fund's custodian is a credit institution licensed by the Authority. The selling and distribution of the fund was carried out primarily through the bank's branch network. The fund manager is also part of the same banking group and is responsible for the fund's general administration and for the investment and reinvestment of the fund's assets. In its capacity as fund manager, it outsourced discretionary portfolio management responsibilities to a management company, licensed by the FSA in the United Kingdom, and certain administrative services, including a number of compliance-related duties, to a recognised fund administrator which also forms part of the same banking group.

The three investigations conducted by the MFSA into the affairs of this fund concerned the fund's leverage restriction, selling practices and redemption of units.

The leverage investigation

This investigation addressed the adequacy of bank and fund manager's monitoring of the fund's compliance with its investment restrictions, and specifically compliance with the leverage restriction. The investigation was closed on 15 June 2011. It determined that the bank had failed to act with the level of care and diligence required by law. In particular, the bank wrongly applied the leverage restriction and wrongly monitored the application of this leverage restriction by others. The bank also failed to properly monitor compliance with the investment restriction and to maintain sufficient records and made inaccurate reporting in the fund's financial reports for September 2006, 2007, 2008 and 2009. The bank was fined a total of €197,995 for these breaches.

The fund management company was also fined for failure to act with the required level of care and diligence, wrong application of the leverage restriction, failure to properly monitor its outsourced services providers and failure to maintain sufficient records. The fine imposed on the fund management company amounted to €149,821.

These decisions were not appealed.

Investigation into selling practices

This investigation is being carried out primarily in order to verify whether the bank complied with the relevant licence conditions applicable to it as intermediary for the sale of the fund, and whether investors were provided with proper information about the fund as required in terms of the local regulatory framework.

Investigation into improper redemption of units

This investigation focused on whether officers of the bank improperly redeemed their units in the fund while privy to negative information on the fund's performance which was not yet available to the general public. The MFSA closed this investigation on 5 January 2012.

As a result of this investigation, the MFSA reprimanded a director of the Collective Investment Scheme for disposing of his holdings in the fund whilst in possession of sensitive information which was not available to the public and which he became privy to in his capacity as a director. As a result of the MFSA's investigation and eventual reprimand, the director concerned voluntarily tendered his resignation from the post of director of the scheme and also of another scheme.

The Authority's investigation however did not reveal sufficient evidence to sanction other bank employees or persons connected with them.

Sale of perpetuals and preferred securities

In a separate case, the MFSA also fined the same bank €175,174 for regulatory breaches related to disclosure of information and suitability of financial instruments sold to investors. This penalty was the culmination of a lengthy investigation which begun in 2009 following a number of consumer complaints regarding the manner in which certain securities had been sold to investors, including perpetuals and preferred securities issued by Lehman Bros, Royal Bank of Scotland, HBOS and others.

This decision is currently being appealed before the Financial Services Tribunal.

Other Investigations

A number of other investigations were in progress during the year. These included cases initiated following shortcomings identified in the course of onsite visits to licence holders or other forms of market surveillance and regulatory investigations resulting from complaints in the market. Investigations underway at the end of the year included a number of investigations into sales practices related to various investment instruments, alleged breaches of prospectus conditions, provision of trustee services without authorisation, and breaches of licence conditions and other duties by managers, custodians or other investment providers.

Other Infringements and Penalties

A number of other penalties were imposed during the year. These concerned a number of breaches of licence conditions as well as other infringements under the Insurance Intermediaries Act, the Trusts and Trustees Act, the Investment Services Act and the Financial Markets Act.

The nature of these infringements included the failure by an insurance intermediary to provide reliable and accurate information; failure by a credit institution and a fund manager to act with the level of care and due diligence required of Licence Holders with regards to the conduct of their business and to properly monitor compliance with an investment restriction and also failure to maintain sufficient records; failure by a credit institution to ensure that the information provided to clients was fair, clear and not misleading; and failure by an authorised insurance company to enrol registered persons in the Tied Intermediaries List. Penalties were also imposed on a number of investment service providers for breaches of standard licence conditions. An insurance broking company and a Category 2 investment services licence holder were reprimanded for failing to provide accurate information in an application for registration of an employee in the Brokers register and for issuing promotional material that did not satisfy the conditions of the investment services rules, respectively.

On January 19, 2011, an administrative penalty was imposed on an insurance agency for failing to enrol in the Tied Insurance Intermediaries List. On April 15, 2011, two administrative penalties were imposed on an insurance agency for a breach of the insurance intermediaries rules and for having failed to comply with a condition of enrolment.

On April 14, 2011 the MFSA resolved, on regulatory grounds, to cancel the Collective Investment Scheme Licence of 21st Century Investments SICAV plc issued in respect of its two sub-funds, 21st Century Dynamic Europe Fund and 21st Century Global Opportunities Fund, in terms of its powers under Article 7 of the Investment Services Act, 1994. Accordingly, the company is no longer authorised to hold itself as a licensed Collective Investment Scheme within the meaning of the Act.

The Supervisory Council was assisted by the Legal and International Affairs Unit on various regulatory issues and investigations and in the drafting of documentation in connection with these matters.

A full list of administrative measures and penalties imposed by the Authority may be found at http://www.mfsa.com.mt/pages/AdministrativeMeasuresPenalties.aspx

PREVENTION OF FINANCIAL MARKETS ABUSE

The MFSA has responsibility for enforcing the Prevention of Financial Markets Abuse (PFMA) regime and safeguarding the integrity and reputation of the financial markets.

The Authority has continuously monitored on-and-off exchange trading in financial instruments admitted to trading on the Malta Stock Exchange with the aim of identifying suspicious trading. During 2011, the Authority completed five investigations and eight reviews, and initiated seven new reviews. At the end of the year the Authority had two pending PFMA investigations and six pending PFMA reviews.

At the end of 2011 there were three appeals pending before the Financial Services Tribunal in relation to insider dealing cases. 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.

APPEALS BEFORE THE FINANCIAL SERVICES TRIBUNAL

The Legal and International Affairs Unit is responsible for representing the Authority, often in conjunction with other Units, in a number of cases before the Financial Services Tribunal and the Courts. The Financial Services Tribunal is the appeal mechanism established under the MFSA Act which allows individuals or companies who feel aggrieved by a decision taken by the Authority to appeal against the decision.

During 2011 and early 2012, three new appeals were lodged before the Financial Services Tribunal. At the end of the year there were a total of nine appeals from decisions of the MFSA pending before the Financial Services Tribunal.

Two of the pending appeals concern decisions by the Authority against the same bank. The first is an appeal from the Authority's decision to issue a directive in connection with an offer to investors in the said property fund to acquire their shares in the fund at a set cash price per share on condition that such investors forfeit their legal rights against the bank. The second appeal is from a decision of the Authority to issue a fine for breaches related to the sale of perpetual and other preferred securities to retail investors.

A list of appeals from decisions of the MFSA currently pending before the Financial Services Tribunal may be found on the Tribunal's website: www.mfst.gov.mt

LISTING COMMITTEE

The Listing Committee met twelve times during the year under review. A number of other ad hoc meetings were held to discuss specific topics with third parties including representatives of the various Issuers, representatives of the Malta Stock Exchange and stockbrokers. The market is monitored regularly to ensure that Issuers comply with their continuing obligations under the Listing Rules.

During 2011, the MFSA - as the Listing Authority for all matters relating to the admissibility to listing on a regulated market - issued revised Listing Rules. These changes sought to address conflicts of interest relating to the involvement of directors of investment firms in listed entities or applicants for admissibility to listing.

FINANCIAL STABILITY

Central Bank - MFSA Domestic Standing Committee

The Standing Committee which comprises officials from the MFSA and the Central Bank of Malta continued to meet on a quarterly basis during 2011. The Committee discussed issues of mutual interest relating to prudential supervision and financial stability. Amongst the main issues discussed were developments within the financial sector which may impact financial stability, themes emanating from the Forum for Financial Stability, stress testing of local banks, as well as issues arising from regulations, guidelines or other Papers drawn up by the EU Commission, EBA, ESRB, BIS and other international regulatory bodies.

EU-Wide Stress Testing

The European Banking Authority carried out a stress testing exercise similar to the one carried out the previous year. The 2011 EU-Wide Stress testing exercise covered banks making up 60% of the total EU banking system's assets and comprising at least 50% of the national banking systems' assets on a local level. For the second time round, Malta was represented by Bank of Valletta plc. Other Maltese subsidiary banks were included indirectly through their parent, since the test was run on a consolidated basis.

Banks were tested against a set benchmark of a minimum 5% Core Tier 1 Capital Ratio (CT1R). Bank of Valletta plc was only minimally affected by the stress tests which resulted in just a 0.1 reduction in capital ratio from 10.5% to 10.4%.

2011 EU Capital Exercise

The MFSA in collaboration with the Central Bank of Malta also participated in 2011 EU Capital Exercise undertaken by the European Banking Authority. The EBA Board of Supervisors requested systemically significant banks, including those which had participated in the last 2011 EU-Wide Stress Test, to strengthen their capital positions by building exceptional and temporary capital buffers against Sovereign Debt Exposure. Through this exercise, the Core Tier 1 Capital Ratio of these qualifying banks is expected to reach 9% by June 2012. Bank of Valletta plc was the only locally based participant in this exercise but did not require any increase in its Core Tier 1 capital. This recapitalisation exercise is however still on-going within a number of EU jurisdictions, with banks currently in discussions with Home and Host State Supervisors and the EBA in respect of recapitalisation plans to make up for the indicated shortfalls.

Quantitative Impact Study

The Quantitative Impact Study (QIS), chaired by the Basel Committee on Banking Supervision (BCBS) and the Bank for International Settlements (BIS), was another exercise which MFSA and the Central Bank participated in during the year. In view of the proposed regulatory reforms (Basel III / CRD IV) which are aimed at strengthening global capital and liquidity regulation, the QIS bi-annual exercise helps to ascertain the impact of these new requirements insofar as these raise the quality and level of the capital base, contain excessive leverage and introduce new liquidity standards for the global banking system. One bank participated in the QIS based on the June 2011 data. Five other banks agreed to participate in the QIS based on December 2011 data. Bank participation is on a voluntary basis.

European Insurance stress tests

During 2011, the European Insurance and Occupational Pensions Authority tested insurers' ability to meet the future Solvency II Minimum Capital Requirements (MCR) under three different scenarios: baseline, adverse and inflation scenarios. Within each of these scenarios, the shocks carried out relate to asset-related risks (interest, equity, property & spread) and insurance-related risks (natural catastrophe event & claims reserves deficiency stress for non-life insurers and mortality & longevity for life insurers). The exercise was completed by 221 insurance and reinsurance groups and undertakings, headquartered in the European Union, Iceland, Liechtenstein, Norway and Switzerland. The results were reported on an aggregated basis for 58 groups and 71 other insurance undertakings which together represent approximately 60% of the overall European insurance market. A total of nine insurance undertakings authorised by the MFSA participated in this exercise. These included seven non-life undertakings and two life undertakings. These undertakings covered 52% and 77% of the non-life and life total gross written premiums respectively (based on 2010 figures).

The results of this stress test indicated that overall the European insurance market is well prepared for potential future shocks. The main criteria identified by the European Insurance and Occupational Pensions Authority for the purposes of this exercise were adverse developments in equity prices, interest rates and sovereign debt markets. On the liability side, the more critical risks exposing the non-life sector would be those that could be triggered by increased claims inflation and natural disasters. Stress test data indicated that approximately 10% of the participating groups and undertakings would not meet the Minimum Capital Requirements [MCR] under the adverse scenario, whereas 8% would fail to meet the MCR in the inflation scenario.

In so far as the Maltese Insurance market is concerned, locally authorised undertakings were more negatively impacted under the Adverse Scenario. Only one (non-life) undertaking failed to meet the MCR under all three scenarios. In the non-life sector, CAT shock accounted for most of the impact on the available own funds of locally authorised undertakings which submitted to the stress test. In the life insurance sector, equity shock was found to have the biggest impact on the available own funds of locally authorised participants.

EIOPA also performed a supplementary test on the same participants to evaluate sovereign bond exposures. The results of the shock on sovereign bond yields indicate that approximately 5% of the participating groups and undertakings would not meet the MCR. All participating insurance undertakings authorised by the MFSA submitting to the stress test met the MCR.

EIOPA emphasised that the stress test was based on hypothetical and severe stress scenarios and is not a forecast of what is likely to happen.

EIOPA Low Yield satellite scenario Stress Test

During the year under review, EIOPA also conducted a low yield satellite scenario stress test in view of an extremely low yields environment experienced in several economies. The stress test explores the resiliency of the insurance industry to a prolonged period of low interest rates based on two types of interest rate scenarios: (i) a downward movement in the level of interest rates in accordance with an unconditional forward rate of 4.2%, and a pronounced u-shaped flattening of the curve in the shorter part of the maturity spectrum; (ii) a downward movement in the yield curve to a level and shape similar to the lowest level of the Euro curve observed in recent years. The analysis was conducted on 82 European undertakings that were deemed to have an interest rate sensitive balance sheet position. In so far as the Maltese Insurance market is concerned, five insurance undertakings authorised by the MFSA participated in this exercise, comprising of three non-life undertakings and two life undertakings. These undertakings covered 34% and 77% of the non-life and life total gross written premiums respectively (based on 2010 figures). Similarly to the core test carried out by EIOPA, valuations were based on Solvency II/QIS5 Technical Specifications.

The stress test results indicate that the European insurance industry on average will be adversely affected by a prolonged period of low yields. Results suggest that 5% to 10% of the included companies would face severe problems such that their solvency ratio would fall below 100%. Furthermore, an increased number of companies with solvency rates only slightly above the 100% mark would observe deterioration in their capital position thus becoming vulnerable to other potential external shocks. The five Malta based insurance undertakings participating in the low yield satellite scenario stress test were slightly affected by the prolonged period of low yields, with the solvency ratio diminishing slightly under both scenarios.

CRISIS MANAGEMENT

The Joint Task Force on Bank Resolution (JTFBR) presented a report on the current state of the resolution and insolvency laws in Malta in 2011. A number of options were provided in the report as to the way forward. These were presented to the Domestic Standing Group (DSG) for its consideration. The DSG accepted the JTFBR's report and provided the necessary guidance on the way forward by asking the JTFBR to commence work on identifying the components that will make up the new Recovery and Resolution Regime. This working group also followed progress in this area at both EU and international level to ensure it keeps abreast of the latest developments on this matter. The JTFBR met five times in 2011.

PREVENTION OF MONEY LAUNDERING

Review of compliance by licence holders on matters relating to prevention of money laundering and financing of terrorism is the responsibility of the Financial Intelligence and Analysis Unit (FIAU). On-site compliance work is normally carried out by the MFSA acting on behalf of the FIAU. The MFSA has also participated in a number of joint inspections carried out together with the FIAU. Compliance reviews cover the AML/CFT measures and procedures that licence holders should have in place and their obligations under the applicable legislation, primarily the Prevention of Money Laundering and Funding of Terrorism Regulations and the Implementing Procedures. Compliance reports on AML/CFT on-site inspections carried out by the MFSA are submitted to the FIAU for any action that may be necessary.

During 2011, the MFSA continued to submit feedback to the FIAU in relation to consultations on the 'Implementing Procedures' implementing the provisions of the Prevention of Money Laundering and Funding of Terrorism Regulations. The Implementing Procedures were issued by the FIAU in May 2011.

The MFSA's Money Laundering Reporting Officer continued to represent the MFSA on the Joint Committee for the Prevention of Money Laundering and Funding of Terrorism, which held a number of meetings during the year. The main function of the Committee is to create a forum between the authorities and the industry to exchange views and discuss AML/CFT issues and developments, including the review of effectiveness of aspects of the AML/CFT system. The Joint Committee includes representatives of the Financial Intelligence and Analysis Unit, the Malta Financial Services Authority, the Central Bank of Malta, the Attorney General, the Malta Police, Customs, the Lotteries and Gaming Authority, the Malta Stock Exchange, the Chamber of Advocates, Chamber of Legal Procurators, the Malta Insurance Association, the College of Notaries, the Malta Bankers' Association, the Association of Licensed Financial Institutions, the Malta Institute of Accountants, the Malta Funds Industry Association, the Institute of Financial Services Practitioners, the College of Stockbrokers, the Federation of Real Estate Agents and the Malta Institute of Taxation.

Malta continued to participate actively in the work of the Council of Europe Committee of Experts on the Evaluation Of Anti-Money Laundering Measures And The Financing Of Terrorism (MONEYVAL). MONEYVAL carried out the 4th round AML/CFT mutual evaluation of Malta through an on-site visit from the 29th May to the 4th June. The evaluation focussed on and followed up the recommendations made in the 3rd round and examined compliance with the key, core and other important FATF recommendations. Additionally, the examiners reassessed those other FATF Recommendations where Malta was given a low rating in the 3rd round. The 4th evaluation also covered issues linked to the Third EU Money Laundering Directive. The report on this 4th MONEYVAL AML/CFT assessment of Malta is expected to be adopted by MONEYVAL at its 38th plenary session in March 2012.

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, with a view of harmonising practice thereon with that followed by other States enforcing the sanctions relative to the same regulations.

During 2011, the MFSA published one notice concerning restrictive measures directed against certain persons, entities and bodies in view of the situation in Tunisia. The MFSA also published a total of 12 international sanction related notices to financial services licence holders concerning Legal Notices, EU Council Regulations and United Nations Security Council Resolutions restrictive measures enforced in view of the situation in Libya. These regulations imposed restrictive measures directed against the Libyan Arab Jamahiriya and against certain designated individuals and entities relating to the situation in Libya. Furthermore, the MFSA also published three notices on international sanctions against Iran.

A list of all persons and entities against whom sanctions are currently in force in adherence to the UN Security Council Resolutions and EU Regulations is published under the 'International Sanctions' section on the Authority's website (www.mfsa.com.mt/pages/viewcontent.aspx?id=105).

THE EU FRAMEWORK FOR SUPERVISION OF THE FINANCIAL SYSTEM

The new European System of Financial Supervision (ESFS) which is aimed at eliminating deficiencies that were exposed during the financial crisis started operating as from January 1, 2011.

The ESFS is composed of four main organs established by Regulations adopted by the European Parliament and Council in November 2010. These are the European Systemic Risk Board (ESRB), responsible for macro-prudential oversight of the financial system, and three new supervisory authorities responsible for micro-prudential supervision, namely:

- European Supervisory Authority (EBA);
- European Insurance and Occupational Pensions Authority (EIOPA); and
- European Securities and Markets Authority (ESMA).

The European Supervisory Authorities' regulations and directives were published in the Official Journal of the EU on December 15, 2010 and can be accessed from the following link:
http://eur-lex.europa.eu/JOHtml.do?uri=OJ:L:2010:331:SOM:EN:HTML

Together with other EU National Supervisory Authorities, the MFSA is a full member of the EBA, EIOPA and ESMA and a non-voting Member of the ESRB and was actively involved in all four fora throughout the year. Among other initiatives undertaken by the ESRB during its first year, was the development of a bottom-up survey to complement the surveillance work on risks and vulnerabilities carried out by the European Central Bank. This survey was carried out on a quarterly basis on the basis of inputs from National Central Banks and Supervisory Authorities. In 2012, the ESRB will be mainly focussing on risk and vulnerabilities, macro-prudential instruments, and analysis and other issues such as stress-testing.

The European Banking Authority (EBA) is responsible for the oversight of the European banking system with a view of safeguarding the stability of the financial system, the transparency of markets and financial products and the protection of depositors and investors. During the year, the EBA circulated consultation documents on proposed guidelines to the Incremental Default and Migration Risk Charge (IRC), together with documents on Guidelines to Stressed VaR. These two consultation papers respond to the amendments to the Capital Requirements Directive by Directive 2010/76/EU relating to Stressed VaR and to the Incremental Risk Capital Charge (IRC) in the trading book. The EBA also consulted the industry on draft guidelines on the collection of bank remuneration data. Furthermore, to ensure the orderly functioning and integrity of financial markets and the stability of the financial system in the EU, the EBA conducted an EU-wide stress test exercise of 90 banks in 21 countries, the results of which were published on 15 July 2011.

The main policy work of the EBA currently relates to the creation of the single rule book for the European banking system. Approximately, around 200 deliverables are expected from the EBA based upon the current CRD IV/CRR proposals to be adopted during 2012. Most of these deliverables are expected to be finalised by 2013-2014 thus requiring a high level of input during 2012. Based upon the capacity available at both the EBA and at the National Authorities, the policy areas which have been identified as priorities are capital and capital buffers, liquidity, remuneration, and leverage ratio.

The European Securities and Markets Authority (ESMA) was set up with the aim of ensuring the integrity, transparency, efficiency and orderly functioning of securities markets and, at the same time, enhancing financial consumer protection. ESMA fosters supervisory convergence amongst securities regulators and is also focussed on creating a single rule book in Europe. Together with that of other European Supervisory Authorities (ESAs), its work also contributes to financial stability through its interaction with the European Systemic Risk Board (ESRB).

During 2011, ESMA published a number of consultation documents. One of the main policy works relate to ESMA's technical advice on possible delegated acts concerning the Prospectus Directive as amended. ESMA also published a discussion paper setting out its policy orientations on the Implementing Measures of the Alternative Investment Fund Managers Directive (AIFMD). Furthermore ESMA consulted the industry on Guidelines for UCITS Exchange-Traded Funds (ETFs) and structured UCITS. In the discussion paper, ESMA examined the possible measures that could be introduced to mitigate the risk arising from the availability of complex products to retail investors, as well as the potential systemic risk that may be caused by these types of funds and their possible impact on financial stability. The publication of the final guidelines is expected during the first quarter of 2012.

On 1 July 2011, ESMA also became responsible for the day-to-day supervision of Credit Rating Agencies (CRAs) in Europe. As a result, ESMA published a number of consultation papers on the regulatory technical standards for credit rating agencies relating to the content and format of ratings' data periodic reporting;

the presentation of the information that shall be disclosed by the agencies; the assessment of compliance of credit rating methodologies; and the information to be provided to ESMA in its application for registration and certification and for the assessment of its systemic importance.

The core responsibilities of the European Insurance and Occupational Pensions Authority (EIOPA) relate to supporting the stability of the financial system, transparency of markets and financial products as well as the protection of policyholders, pension scheme members and beneficiaries. EIOPA is also commissioned to monitor and identify trends, potential risks and vulnerabilities stemming from the micro-prudential level, across borders and across sectors. By the end of 2013, EIOPA will be ready to collect the new data from national supervisors based on Solvency II reporting requirements.

During 2011, EIOPA published a number of consultation papers. These included papers on the Solvency II XBRL Taxonomy with the aim of providing evidence and information for the quality assurance of XBRL taxonomy, identifying and mitigating implementation risks, and investigating mechanisms for XBRL Taxonomy maintenance. Among other papers, EIOPA published consultation papers on Equivalence assessment of three non-EU supervisory systems, namely the Swiss, Bermudan, and Japanese supervisory systems. Furthermore EIOPA published the report on the fifth Quantitative Impact Study for Solvency II.

EIOPA also consulted on the Proposal for Guidelines on Own Risk and Solvency Assessment (ORSA) where it aims to have an insight supported by quantitative and qualitative evidence on the impacts, costs and benefits to support the decision-making process for this consultation paper. Furthermore it seeks to collate stakeholders' views on the potential impact ORSA could have on the pricing, design and availability of insurance products; the corresponding implications for consumers; and the wider social or economic impacts.

During 2011 the European Commission asked EIOPA for advice on the EU-wide legislative framework for Institutions for Occupational Retirement Provisions (IORPs). Advice was sought on certain cross-border aspects, and also on the quantitative requirements that should apply to IORPs and how these should be measured; the qualitative requirements particularly in respect of the governance of IORPs and their supervision; and the type of information that should be provided in respect of IORPs to members and beneficiaries.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

During 2011, the Authority conducted 11 consultations and issued 6 feedback statements [Appendix IV]. These consultations dealt with a variety of legislative initiatives including the transposition and implementation of EU Directives into the Maltese financial services legislation. 2011 presented considerable challenges in this respect.

The new European System of Financial Supervisors became operative form 1 January 2011 following the publication in the Official Journal of the European Communities on 15 December 2010 of a package of legislative measures which established:

- The European Systemic Risk Board;
- The European Banking Authority (formerly CEBS);
- The European Insurance and Occupational Pensions Authority (formerly CEIOPS); and
- The European Securities and Markets Authority (formerly CESR).

This new supervisory structure significantly increased the Authority's involvement with EU regulatory matters, particularly at the operational and policy development levels.

MAIN LEGISLATIVE INITIATIVES STEMMING FROM THE TRANSPOSITION OF EU DIRECTIVES

Electronic Money Institutions Directive

Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC ("E-Money Directive") was published in the Official Journal on 10 December 2009.

Given that the transposition deadline for this Directive stood at 30 April 2011, during the first quarter of 2011, the Authority finalised the transposition process which was initiated during 2010. Since one of the innovative features brought about by this Directive is that of classifying electronic money institutions as financial institutions rather than as credit institutions, the need was felt to align the provisions of the Banking Act with the requirements of Directive 2001/110/EC. Act II of 2011 aligned the provisions of the Banking Act with the new requirements of the Directive whereas Act X of 2011 widened the remit of the Financial Institutions Act to provide for the authorisation of financial institutions which provide for the issue of electronic money.

The provisions of the Financial Institutions Act were further supplemented with the issue of the Financial Institutions Act (Safeguarding of Funds) Regulations which came into force on 13 May 2011 and transposed the provisions of the Directive 2009/11/EC relating to safeguarding of funds.

Alternative Investment Fund Managers Directive

On 11 November 2010, the European Parliament voted in favour of the Directive on Alternative Investment Fund Managers. The Directive came into force during the first quarter of 2011 and the transposition deadline has been set to 22 July 2013.

On 16 September 2011 ESMA delivered its advice on the Level 2 measures to the Commission. Due to the significant number of implementing powers the advice was divided into four parts:

[a] Part I covers general provisions, authorisation and operating conditions;
[b] Part II is devoted to implementing measures regarding the depositary;
[c] Part III covers Transparency Requirements and Leverage;
[d] Part IV covers implementing measures regarding supervision.

The MFSA participated in the process leading up to the ESMA advice and gave its feedback during the preparation stage. During the coming year, the Commission will be issuing the implementing measures and technical guidelines in the light of the advice provided by ESMA.

The Authority also monitored closely the developments at EU level and in particular sought to participate in the four task forces set up by ESMA to discuss and develop the advice on the Level 2 Implementing Measures. The industry was also kept abreast of the developments concerning this Directive and in this regard, the Authority issued two circulars updating the industry on the documents circulated by ESMA.

The transposition process was initiated during the last quarter of the year and is expected to run through 2012 with the issue to the appropriate consultation papers and feedback statements to the industry.

Capital Requirements Directive III

Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies also known as CRD III was published in the Official Journal of the European Union on 14 December 2010 and had to be transposed into national law by 31 December 2011. In particular, this Directive requires credit institutions and investment firms to establish remuneration policies that are consistent with effective risk management and to adjust certain capital requirements.

During the period under review, the Authority issued a circular addressed to the Investment Services Industry concerning the transposition of the Capital Requirement Directive. The purpose of this circular was twofold, namely that of providing a brief outline of CRD II and CRD III, and of outlining the manner in which the Authority has transposed the EU Directives in the local legislative framework in relation to investment firms.

As far as the banking sector is concerned, the transposition of Directive 2010/76/EU required a number of amendments to local legislation relating to the strengthening of capital requirements and disclosure for the trading books and for re-securitisation instruments in the banking sector together with measures aimed at ensuring that remuneration policies in the banking sector do not generate unacceptable levels of risk. The provisions of CRD III were transposed mainly in the Banking Rules issued in terms of the Banking Act, in particular, Banking Rules BR/03/2010 - Own Funds of Credit Institutions authorised under the Banking Act 1994; BR/04/2010 - Capital Requirements of Credit Institutions Authorised under the Banking Act 1994; BR/07/2010 - Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994; BR/08/2010 - Capital Adequacy of Credit Institutions Authorised Under the Banking Act 1994 and BR/12/2010 The Supervisory Review Process Of Credit Institutions Authorised Under The Banking Act 1994. The amended Banking Rules came into force with effect from 31 December 2011.

Capital Requirements Directive IV [CRV IV]

On 20 July 2011, the European Commission [IP/11/915] announced the launching of a proposal to strengthen the European banking sector, whilst ensuring that banks continue to finance growth and economic activity. The Commission's proposal for CRD IV, which consists of a Directive and a Regulation, has the following goals namely:

[1] Requiring banks to retain more capital to be able to weather future shocks and crisis;
[2] Set up a new governance framework for supervisors to enable close supervision and monitoring of banks;
[3] Provide a Single Rule Book for Banking Regulation.

The proposed Directive will regulate the deposit taking activities whereas the Regulation will regulate the manner in which activities of credit institutions and investment firms are carried out. The proposed CRD IV package will replace the former Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast). It is the intention of the Commission that CRD IV comes into force on 1 January 2013.

The Authority is also involved in the discussions concerning CRD IV taking place in various EU fora and intends keeping the industry abreast of any developments in this regard.

Financial Conglomerates Directive

Directive 2011/89/EU of the European Parliament and of the Council of 16 November 2011 amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate was published in the Official Journal of the European Union on 8 December 2011. The transposition deadline for Member States is 10 June 2013 with the exception of some provisions of the Directive which must be transposed into national legislation by 22 July 2013. The amendments to this Directive include:

[1] The inclusion of asset management companies in the threshold tests for identifying a conglomerate;
[2] A waiver for small groups if the relevant supervisor assesses the group risks to be negligible;
[3] Allowing for risk-based assessments, in identifying financial conglomerates, in addition to existing definitions relating to size;
[4] Allowing for both sector-specific (banking and insurance) supervision and supplementary supervision of the conglomerate's parent entity, also if it concerns a holding company.

The Authority will be assessing the changes involved to the Financial Conglomerates Regulations, 2004 as a result of Directive 2011/89 and will be embarking on the transposition process during 2012.

Solvency II

The final text of 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) (recast) was adopted by the Council on 10 November 2009. Solvency II is a new regulatory regime which will introduce a comprehensive risk management framework whose aims are twofold namely:

[i] Establishing the required capital levels; and
[ii] Implementing procedures to identify measure and manage risks.

During the first quarter of 2011 the Authority published the results of the Fifth Quantitative Impact Study (QIS 5) on Solvency II. QIS 5 had been conducted between August and November 2010 and it was intended to test the calibration and potential quantitative impact of the proposals as well as the preparedness of the insurance market for Solvency II.

The results collated at national level were transmitted to EIOPA which published the results on a European level in the form of a report on 14 March 2011. The report sets out the results for the participating Maltese insurance undertakings. The Authority received 38 completed QIS 5 submissions out of the 44 authorised insurance undertakings, marking a participation rate of 86.4%. The participation of Maltese insurance undertakings in QIS 5 was considerably higher than that for the QIS 4 exercise which had been conducted in 2008.

In June 2011, the Authority issued a Guidance Paper entitled "Supervisory Reporting and Disclosure Requirements". This is the third Guidance Paper issued by the Authority on the transposition and implementation of Solvency II. This Guidance Paper covers the Solvency II Pillar 3 requirements and is structured to provide an overview of the public and supervisory reporting requirements for both solo undertakings and undertakings which are subject to group reporting requirements which either use a standard formula or an internal model for the purpose of computing Standard Capital Requirements.

During the period under review, the Authority also circulated the following consultation documents on Solvency II which were issued by EIOPA:

[1] Introduction to the technical consultation on the Solvency II XBRL Taxonomy - [EIOPA-CP-11/002];
[2] Consultation Paper on the Proposal for Guidelines on Own Risk and Solvency Assessment – [EIOPA-CP-11/008];
[3] Consultation Paper on the Supervisory Reporting and Public Disclosure Framework – [EIOPA-CP-11/009].

EIOPA also carried out assessments on the equivalence of the Swiss, Bermudan and Japanese solvency and prudential regimes with Solvency II and in November 2011, the European Commission requested EIOPA to undertake further work in preparation for a transitional regiment for third country equivalence.

The deadline for the transposition of Solvency II together with its implementing measures is 1 January 2013. The Authority is monitoring closely all the developments and is also working on the transposition of the Directive into national legislation.

UCITS IV

Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) was approved by the European Parliament in January 2009 and adopted by Council in June 2009. UCITS IV was further supplemented by Level II and Level III Implementing Measures consisting in Directives, Regulations and Technical Guidelines.

The transposition deadline for UCITS IV was 1st July 2011 and consequently during the first six months of 2011, the Authority concentrated on the transposition and implementation of this Directive together with the Level II and Level III Implementing Measures. During this process, the Authority launched three consultation documents outlining the transposition process.

The UCITS IV package was partly transposed into the Investment Services Act and in three *'ad hoc'* Regulations. Act X of 2011 aligned the provisions of the Investment Services Act with the requirements prescribed by the Directive. Furthermore, the Investment Services Act (Marketing of UCITS) Regulations 2011 transposed the provisions of the Directive relating to cross-border marketing of Maltese UCITS and European UCITS and the Investment Services Act (UCITS Management Company Passport) Regulations 2011 transposed the provisions of the Directive relating to passporting of services by Maltese Management Companies or European Management Companies. The provisions relating to the regulatory requirements for domestic mergers and cross-border mergers were transposed in the Investment Services Act (UCITS Mergers) Regulations, 2011.

The transposition process also involved considerable amendments to the Investment Services Rules for Investment Services Providers and the Investment Services Rules for Retail Collective Investment Schemes. In particular, a dedicated section, Part BII, dealing with UCITS Fund Managers was created in the Investment Services Rules for Investment Services Providers. The Investment Services Rules for Retail Collective Investment Schemes also required updating in view of the innovations prescribed by the Directive with regards to the issue of the Key Investor Information Document, amongst others.

The revised Act, the Legal Notices and the revised Investment Services Rules came into force on 1 July 2011.

OTHER LEGISLATIVE AND REGULATORY CHANGES BY SECTOR

Credit and Financial Institutions

During the period under review, the Authority proceeded with its ongoing work of revision of the Banking Rules in view of the transposition of the provision of CRD III as outlined above.

The Authority also reviewed specific Banking Rules in view of the transposition of Directive 2010/78/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authority (European Banking Authority), the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority) also referred to as the Omnibus Directive. Banking Rules BR/02/2010 - Large Exposures of Credit Institutions authorised under the Banking Act 1994, BR/03/2010 - Own Funds of Credit Institutions authorised under the Banking Act 1994, BR/04/2010 - Capital Requirements of

Credit Institutions Authorised under the Banking Act 1994, BR/08/2010 - Capital Adequacy of Credit Institutions Authorised Under the Banking Act 1994 and BR/10/2010 - Supervision on a Consolidated Basis of Credit Institutions Authorised Under the Banking Act 1994 were amended to reflect the provisions of the Omnibus Directive.

The Financial Institutions Rules FIR/01 of 2011 and FIR/02 of 2011 were also revised to reflect the changes which were mainly effected to transpose in part the requirements of Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC also referred to as the Payment Services Directive and Directive 2009/110/EC also referred to as the Electronic Money Institutions Directive discussed above. In particular, Financial Institutions Rule FIR/03 of 2011, is a new Rule dealing specifically with the taking up, pursuit of and prudential supervision of the business of financial institutions authorised to issue electronic money. This rule replaces the previous Electronic Money Institutions Directive (EMID/01/2002 on the Taking Up, Pursuit of and Prudential Supervision of the Business of Electronic Money Institutions Authorised under the Banking Act 1994).

The European Passport Rights for Credit Institutions Regulations, 2011 [L.N. 459 of 2011] and the European Passport Rights for Financial Institutions Regulations, 2011 [L.N. 458 of 2011] came into force on 25 November 2011. The former Regulations, which repeal the European Passport Rights for Credit Institutions Regulations, 2004, apply to Maltese credit institutions licenced in terms of the Banking Act as well as European credit institutions authorised by a European Regulatory Authority. They regulate the European right of a credit institution, whether licenced in Malta or in another Member State or EEA State to establish a branch or provide services in a Member State or EEA State other than that in which it has its head office.

The European Passport Rights for Financial Institutions Regulations, 2011 seek to regulate the European right of financial institutions, whether licenced in Malta or in another Member State or EEA State to provide the activities for which it has been authorised throughout the Community, either through the establishment of a branch or through the freedom to provide services, including by engaging an agent.

Insurance, Reinsurance and Pensions

The Retirement Pensions Act [Act XVI of 2011] was published in the Government Gazette of 5 August 2011. The Special Funds (Regulation) Act will be repealed once the Act comes into force during 2012. During the period under review, the Authority has been working on the subsidiary legislation to be issued in terms of the Act and on the Pension Rules which will be issued under the Act.

Following the coming into force on 1 February 2011 of the Companies Act (Incorporated Cell Company carrying on Business of Insurance) Regulations, 2010 [L.N. 588 of 2010], the Authority further supplemented and enhanced these new Regulations with amendments to Insurance Rule 6 of 2007 – Scheme of Operations relating to the Business of Insurance. The amendments to Insurance Rule 6 concern primarily the schemes of operations to be completed by an applicant who wishes to establish incorporated cell companies and incorporated cells. The revised Insurance Rule 6 came into force on 1 March 2011. The Insurance Business (Fees) (Amendment), Regulations, 2011 prescribing the fees applicable to the establishment of incorporated cell companies and incorporated cells also came into force on 1 February 2011.

A review was also carried out to the Protection and Compensation Fund Regulations with the aim of extending the timeframes from three to five months within which the Protection and Compensation

Fund Committee to submit its report on the activities of the fund and financial position of the fund. The amendments came into force on 29 March 2011.

The revised Financial Conglomerates Regulations came into force on 14 October 2011. The amendments transpose Article 2 of Directive 2010/78/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authority (European Banking Authority), the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority) also referred to as the Omnibus Directive.

Further to a note for consultation issued on 8 November 2010 on Programmed Withdrawal Arrangements, on 11 May 2011, the Authority issued a feedback statement in relation to the submissions received from the industry. The consultation paper explained the manner in which retirement benefits as defined in Article 2(1) of the Special Funds (Regulation) Act, 2002 were to be paid in the form of a stream of income payments, other than any benefits paid on death or permanent invalidity of the member. This feedback statement was further accompanied by a Circular announcing the issue of rules on Programmed Withdrawal Arrangements.

Following the consultation document which was issued by the Authority on 21 June 2011, the revised Insurance Intermediaries Rule 17 of 2007 - Application for Persons to be Entered in the Tied Insurance Intermediaries List and Insurance Intermediaries Rule 18 of 2007 – Business of Insurance Not Subject to Tied Insurance Intermediaries Activities were issued and came into effect on 1 September 2011.

During 2012, the Authority will be monitoring closely the developments concerning the revision to Directive 2002/92/EC of the European Parliament and of the Council on insurance mediation. A revised proposal of the Directive is expected to be issued by the European Commission during the first quarter of 2012.

Listing Rules

On 3 June 2011, the Listing Authority issued a circular concerning conflicts of interest relating to the involvement of directors of investment firms in listed entities or applicants for admissibility to listing. A revised version of the Listing Rules came into force on the same date. Subsequently, on 26 July 2011, the Listing Authority consulted on proposed amendments to Listing Rule 4.55 and the introduction of other rules concerning advertisements. Following the consultation, which ran till 8th August 2011, the Listing Authority took stock of all submission and it is expected that the proposed amendments to Chapter 4 will come into force during the first quarter of 2012.

The revised policies of the Listing Authority on the requirement to set up a sinking fund and the requirement to report on the financial soundness of the issuer were published on 9 December 2011. These policies were revised following a consultation exercise which was launched on 12 August 2011 proposing amendments thereto.

An important development which merits reporting in relation to the period under review is the proposal issued by the Listing Authority on 3 November 2011 in relation to the introduction of the Second Tier Market Rules. The Chapter relating to secondary markets was originally introduced in the Listing Rules to provide an alternative market for companies that do not satisfy the conditions for listing on the main market, as outlined in Chapter 3 of the Listing Rules. This Consultation Document outlined the Listing Authority's proposal to have two separate markets namely the Main Market and the Second Tier with specific rules applicable respectively. The consultation ran till 2 December 2011.

SECURITIES AND MARKETS SUPERVISION

During the period under review, the Authority concentrated primarily on the transposition of UCITS IV and CRD II and III as outlined above. In particular, the revisions to the Investment Services Rules transposing in part the provisions of the UCITS IV Directive additionally served the purpose of aligning the provisions of the Investment Services Rules for Retail Collective Investment Schemes, in particular, with the Investment Services Act (Contractual Funds) Regulations, 2011 and the Companies Act (SICAV Incorporated Cell Companies) Regulations, 2010.

The Authority issued a circular to the industry regarding the regulatory disclosure by Investment Services Licence Holders under SLCs 7.49 and 7.50 of Part BI of the Investment Services Rules for Investment Services Licence Holders. This circular outlined the requirement that Investment Services Licence Holders adhere to Pillar III disclosure requirements. Furthermore, Licence Holders were also informed that compliance with these requirements could be achieved through disclosure in the Investment Services Licence Holders annual audited Financial Statements.

The Investment Services Act (Financial Capital Adequacy Consolidation) Regulations, 2011 came into force on 22 February 2011. These regulations partly implement Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast). These Regulations were supplemented further by proposed amendments to Appendix 3A of the Investment Services Rules for Investment Services Providers. The revised Appendix 3A is expected to come into force during 2012.

During the period under review, the Authority was involved in the transposition of the provisions of Directive 2010/78/EU referred to above, also known as the Omnibus Directive. The drafting process is expected to be finalized during the first quarter of 2012.

During the last quarter of 2011, the Authority issued the draft Companies Act (Recognised Incorporated Cell Companies) Regulations for consultation. These Regulations build on the "cellular" concept, taking into account international developments and setting out a framework for a new type of vehicle in Malta – Recognised Incorporated Cell Companies. The cellular concept provides for the establishment of a cluster of cell companies grouped under an incorporated cell company structure. Assets and liabilities are attributed either to the cell company itself, or to a particular separate cell of the cell company. The proposed Regulations are expected to come into force during the first quarter of 2012.

TRUSTS AND TRUSTEES

In 2010, the Authority set up a Working Group which included representatives from the Authority and representatives from the industry. This Working Group was set up to discuss proposals for improving Malta's laws and practices regulating trusts and to enhance the legal framework related to the establishment and use of trusts for various purposes. The Working Group resumed its meetings during 2011 and also started drafting amendments to the Trusts and Trustees Act, in line with the discussions which were held with the industry.

Act X of 2011 amended Articles 43, 51 and 53 of the Act including provisions related to the authorisation of trustees, whereas Act XVI of 2011 aligned the provisions of the Trusts and Trustees Act with the provisions of the Retirement Pensions Act.

On 27 July 2011, the Authority issued a circular addressed to companies that are authorised to act as trustees in terms of Article 43 of the Act. This circular was issued following the receipt of notifications from authorised trustees with respect to their intention of acting as administrators of private foundations, as well as numerous enquiries related to the authorisation to act as a trustee, issued in terms of article 43 of the Trusts and Trustees Act. The circular was aimed at informing authorised trustees of the approach adopted by the Authority in connection with the aforementioned matters in order to address any existing ambiguities.

OTHER LEGISLATIVE INITIATIVES

Better Regulation

On the local front, the Authority's legislative efforts were to a certain extent impacted by the coming into force of the Small Business Act [Act XI of 2011]. The Act aims at enhancing the operational environment for SMEs in order to facilitate their setting up and growth. On a practical level, when proposing legislation, the Authority must carry out an impact assessment to identify the effect which such legislation may have on the SMEs operating environment. Furthermore, the Act requires the drawing up of explanatory notes and user guidelines to explain the salient features of the proposed legislation.

The period under review was marked by the Authority's involvement in the Better Regulation Initiative led by the Management Efficiency Unit. This initiative is aimed at measuring and reducing by 15% by 2012 the administrative burdens on both businesses and citizens resulting from the information obligations emanating from legislation. The Authority's involvement stems from the fact that financial services legislation and company law were identified as two of the ten priority areas by the European Union. Initiatives undertaken in 2011 continued to build on the development of electronic submission facilities for the Companies Registry that were launched in previous years and the continuation of the streamlining of Statistical Returns for various financial services activities in collaboration with the Central Bank.

Cross-Border Collaboration

The year under review has witnessed initiatives on cross-border collaboration with regulatory and supervisory authorities worldwide. In particular, 2011 saw the signing of an MOU with the Nebraska Department of Insurance and an MOU with the National Bank of Slovakia. In particular, the latter MOU establishes a framework for assistance, the sharing of supervisory information and cross-border co-operation. It expands on the previous MoU signed between the Authority and the NBS in 2004, which was limited to information sharing in the field of banking supervision. The updated version of the MoU includes provisions on co-operation and information sharing in the fields of insurance supervision and the supervision of securities markets.

LICENSING

The Malta Financial Services Authority registered growth in the number of new licences issued in 2011 in all sectors of the financial services sector.

Credit and Financial Institutions

The number of registered credit institutions remained unchanged at 25 in 2011 while the number of authorised financial institutions increased to 15 during the year.

Table 12: Credit and Financial institutions (2009 - 2011).

	Total licences at end 2009	Total licences at end 2010	Total licences at end 2011
Credit institutions	23	25	25
Financial institutions	15	13	15
Of which:			
Payment Institutions	-	-	8
Electronic Money Institutions	-	-	1

Source: Malta Financial Services Authority

The Authority granted a financial institution licence to Michael Grech Financial Investment Services Limited to carry out the activity of money broking, to Syspay Limited to carry out the activity of issuing of electronic money and to EnterCash Limited to provide payment services. During the year, Crystal Loan Brokers Limited voluntarily surrendered the licence.

Insurance Business

The number of insurance undertakings authorised by the Malta Financial Services Authority continued to increase in 2011 with the authorisation of six new insurance undertakings. As at end 2011, there were 54 authorised insurance undertakings, four more net authorisations than the previous year.

During the year, SN SecureCorp Insurance Malta Limited was authorised to carry on the business of insurance in relation to three classes of the general business.

ArgoGlobal SE was authorised to carry on the business of insurance in respect of two classes of the general business.

The Authority authorised four new Protected Cell Companies in 2011. Namely, Abbey International Insurance PCC Limited and Highdome PCC Limited were authorised to carry on the business of insurance in relation to 18 and six classes of the general business respectively. Oney Insurance (PCC) Limited was authorised to carry on the business of insurance in relation to five classes of the general business while Oney Life (PCC) Limited was authorised to carry on the business of insurance in relation to one class of the life business.

Table 13: Authorised insurance undertakings (2009 – 2011).

	Total licences at end 2009	Total licences at end 2010	Total licences at end 2011
Non-Life	30	33	37
Life	8	8	8
Composite	3	2	2
Reinsurance	4	7	7
Total	45	50	54
of which:			
Affiliated	8	10	10
Protected Cell Companies	3 *(12 cells)*	4 *(13 cells)*	8 *(16 cells)*
Insurers of domestic origin	8	8	8
Insurers of foreign origin ^	2	2	1

Source: Malta Financial Services Authority

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

During 2011, the Authority approved three new cells, namely cell A16 of White Rock Insurance (Europe) PCC Limited, Absolut Cell of Abbey International Insurance PCC Limited and Totemic Cell of Atlas Insurance PCC Limited, to write business in terms of the Companies Act (Cell Companies Carrying on Business of Insurance) Regulations, 2004. As at end 2011, there were 16 approved cells within eight protected cell companies.

During 2011, GasanMamo Insurance Limited and Nissan International Insurance Limited had the licence extended to carry on business of reinsurance in 12 and two classes of the general business respectively. Axeria Re Limited had the licence extended to carry on business of reinsurance in two classes of the general business while St. Julians Insurance Company Limited had the licence extended to carry on business of insurance in four classes of the general business.

Central General Limited and Central Life Limited voluntary ceased to carry on business of insurance in terms of the Insurance Business Act (Cap 403). American Home Assurance Company Limited ceased to carry on business of insurance in terms of the Insurance Business Act (Cap 403) after the company had transferred its Malta business portfolio to Chartis Europe Limited. Chartis Europe Limited had passported its services to Malta by way of freedom of establishment.

Insurance Intermediaries - Companies

During the year, the Authority enrolled two new insurance managers, namely STM Malta Insurance Management Limited and HSBC Insurance Management Services (Europe) Limited. There were 15 licensed insurance managers as at end December 2011, two more than the previous year.

Table 14: Authorised insurance intermediaries – Companies (2009 – 2011).

	Total licences at end 2009	Total licences at end 2010	Total licences at end 2011
Enrolled Insurance Managers	13	13	15
Enrolled Insurance Agents of:			
Local Insurers	10	10	9
Foreign Insurers	9	9	10
Enrolled Insurance Brokers	28	28	30

Source: Malta Financial Services Authority

During 2011, Citadel Health Insurance Agency Limited was granted authorisation to act as insurance agent for a foreign insurer. Smart Insurance Brokers Limited and Northcourt Limited were enrolled in the Brokers List. There were 30 enrolled brokers as at end 2011.

Registered Individuals

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

During 2011, seven individuals were added to the Managers Register, three to the Agents Register and nine to the Brokers Register. As at end 2011, there were 26 individuals registered in the Managers Register, 28 individuals registered in the Agents Register and 71 individuals in the Brokers Register. There were 513 registered tied insurance intermediaries in 2011, six net more than the previous year.

Table 15: Authorised insurance intermediaries – Individuals (2009 – 2011).

	Total licences at end 2009	Total licences at end 2010	Total licences at end 2011
Registered Insurance Managers	23	22	26
Registered Insurance Agents	28	27	28
Registered Insurance Brokers	69	66	71
Tied Insurance Intermediaries	500	507	513

Source: Malta Financial Services Authority

Pensions

In 2010, the MFSA started issuing the first certificates under the Special Funds Act for the setting up of retirement schemes, retirement scheme administrators, and asset managers for retirement schemes. During 2011, the Authority issued seven Retirement Scheme certificates of registration, namely to The Westerby International Retirement Plan, Momentum Malta Retirement Trust, The Dominion Malta Retirement Plan 2010, The Third Dominion Malta Retirement Plan, IPF Retirement Plan, The Calypso International Retirement Scheme, and The Dominion EU Retirement (US Qualified) Plan.

Scheme Administrator certificates were issued to Worldwide Pensions Limited and Momentum Pensions Malta Limited. As at end 2011, there were seven licensed retirement scheme administrators.

Table 16: Retirement Schemes, Administrators, and Asset Managers (2010 – 2011).

	Total licences at end 2010	Total licences at end 2011
Retirement Schemes	6	13
Retirement Scheme Administrators	5	7
Asset Managers	3	3

Source: Malta Financial Services Authority

SECURITIES BUSINESS

Investment Services

Fund servicing capabilities continued to grow during 2011, the major increase being seen in Category 2 investment services licences where 15 new licences were issued during 2011. The number of investment services licences as at end 2011 totalled 109; seven net additional licences when compared to the previous year.

Table 17: Investment services licences (2010 – 2011).

	2009			2010		
	New licences	Surrendered licences	Total licences at end 2010	New licences	Surrendered licences	Total licences at end 2011
Category 1a	3	0	13	1	-	13[6]
Category 1b	2	0	5	-	1	4
Category 2	15	7	73	15	8	80[7,8]
Category 2 & 4	0	0	3	-	-	3
Category 3	1	1	5	-	-	6[9]
Category 3 & 4	0	0	2	-	-	2
Category 4	1	0	1	-	-	1
Total	22	8	102	16	9	109

Source: Malta Financial Services Authority

During the year, the Authority issued sixteen new investment services licences. These included fifteen new Category 2 investment services licences, issued to AUM Asset Management Limited, Swiss Settlements Fund Management Limited, Alpha Value Management Limited, PVE Capital Limited, Afex (Europe) Limited, Temple Asset Management Limited, Exante Limited, Futura Investment Management Limited, Calamatta Cuschieri Investment Management Limited, TradExec (TEX) Limited, NBG Bank Malta Limited, Prestige Capital Management Limited, Hornchurch Limited, Portman Capital Management Limited, and FCS Asset Management Limited. The Authority also issued one new Category 1A licence to Phenom Directors Limited.

[6] *One licence was upgraded from 1A to 2.*
[7] *One licence was upgraded from 1A to 2.*
[8] *One licence was upgraded from 2 to 3.*
[9] *One licence was upgraded from 2 to 3.*

Two companies, namely Joseph Scicluna Investment Services Limited and Rizzo, Farrugia & Co. (Stockbrokers) Limited had the licence upgraded from Category 1A to Category 2 and Category 2 to Category 3 respectively. Two other companies, namely Numen Investments Limited and Calamatta Cushcieri & Co. Limited, had their licences revised to include additional activities.

During the year, the Authority accepted the surrender of eight Category 2 licences, issued to Fundior Investment Services Limited, Stoneworks Asset Management (Malta) Limited, FIMBank plc, Sturgeon Capital Limited, Belay Management Limited, Re-Invest Partners Limited, CIE Management IXM Limited, and Occam Investment Management (Malta) Limited. The Authority also accepted the surrender of Category 1b licence issued to Delta Exotics Limited.

The number of recognised fund administrators at end of 2011 stood at 24 following recognition certificates issued to six new fund administrators under the Investment Services Act, namely to Alpha Value Management Limited, Castlegate Fund Services Limited, Alter Domus Services (Malta) Limited, Tromino Financial Services (Malta) Limited, Trident Fund Services (Malta) Limited, and Helvetic Fund Administration (Malta) Limited.

Table 18: Investment services licences – Recognised Fund Administrators (2010 – 2011).

	2010			2011		
	New licences	Surrendered licences	Total licences at end 2010	New licences	Surrendered licences	Total licences at end 2011
Recognised Fund Administrators	5	0	18	6	0	24

Source: Malta Financial Services Authority

Collective Investment Schemes (CISs)

The number of new licences issued to Collective Investment Schemes (including sub-funds) in 2011 increased significantly over 2010. The Authority issued a total of 179 new Collective Investment Scheme licences (including sub-funds), of which 163 were Professional Investor Funds (PIFs), 14 UCITS funds and two Non-UCITS funds. Table 19 outlines the new issued licences and the surrendered licences by the Authority for the period 2009-2011.

Table 19: New and surrendered Collective Investment Schemes (including sub-funds) (2009 – 2011).

	2009		2010		2011	
	New licences	Surrendered licences	New licences	Surrendered licences	New licences	Surrendered licences
PIFs	102	52	102	81	163	26
UCITS	3	9	5	-	14	5
Non-UCITS	-	3	-	6	2	1
Private	-	1	1	2	0	0
Total	105	65	108	89	179	32

Source: Malta Financial Services Authority

During the year under review, 26 Professional Investor Funds, five UCITS and one Non-UCITS fund surrendered the licence.

TRUST SERVICES

As at end 2011, there were 123 authorisations in terms of the Trusts and Trustees Act, five net more authorisations than the previous year.

During the year, the Authority issued eight new authorisations in terms of the Trusts and Trustees Act (Cap.331). Alpha Business Limited was authorised to receive property under trusts and to act as a trustee or co-trustee. Trident Trust Company (Malta) Limited, H&P Trust Company (Malta) Limited, Grand Harbour Trustees Limited, and Integritas Trustees Limited were authorised to act as a trustee and to provide other fiduciary services including acting as an administrator of private foundations. Three individuals were authorised to act as an administrator of private foundations.
Ganado Trustees & Fiduciaries Limited, STM Malta Trust and Company Management Limited, PCL International Holdings Limited, QUBE Holdings Limited, and Bentley Trust (Malta) Limited had the authorisation extended to act as an administrator of Private Foundations in terms of Article 43(12)(b) of the Trusts and Trustees Act. RBG Fiduciary Services Limited had the authorisation extended to hold property under trust and to act as trustee or co-trustee.

Table 20: Nominees, Licensed Nominees, Trusts and Authorised Trustees (2009 – 2011).

	Total authorisations at end 2009	Total authorisations at end 2010	Total authorisations at end 2011
Authorisations in terms of the Trusts and Trustees Act (Trustees/ Fiduciary Service Providers/ Administrators of Private Foundations)	108	117	123
Nominees	24	23	22
Trusts registered in terms of the Trust Act, 1988	117	117	115

Source: Malta Financial Services Authority

The coming into force of the Trusts & Trustees Act in 2005 brought the issuing of licences for trusts and nominee services to an end. Companies and individuals who held a licence to provide nominee services had until 2006 to apply for a licence to act as Trustees under the new Act. In this regard, during 2010, nominees continued to be phased out with only 22 still registered. At the end of the year, 115 trusts were still registered in terms of the Trust Act (1988).

LISTING AUTHORITY

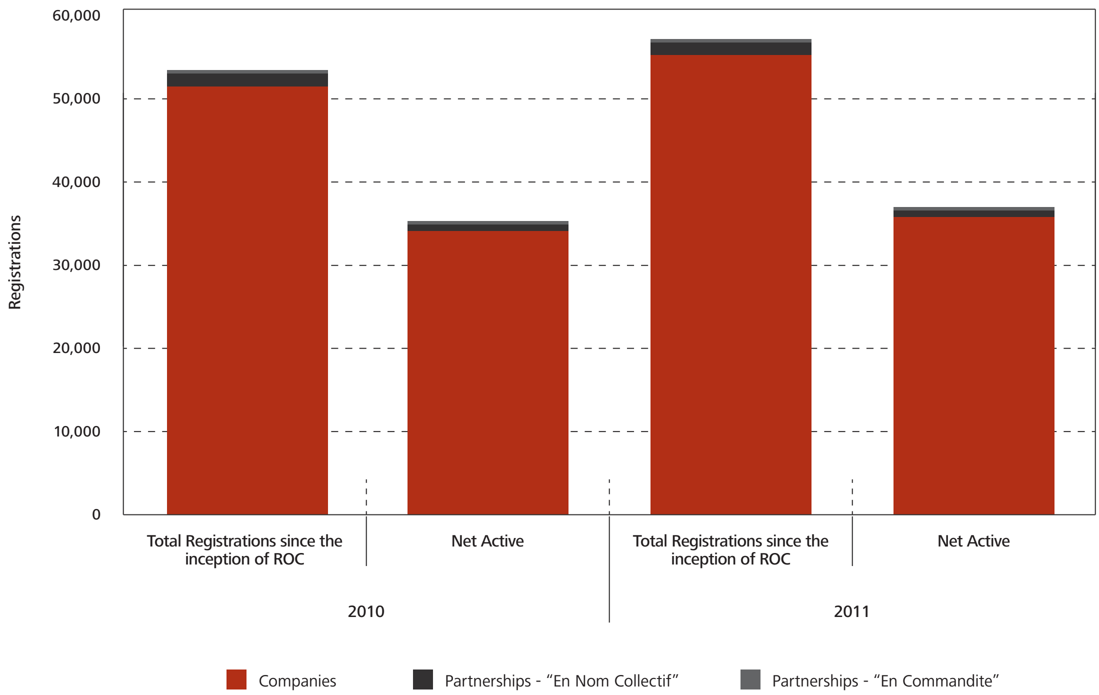
Following the appropriate evaluations undertaken by the Listing Committee, the Listing Authority approved the admissibility to listing one equity issue, 11 corporate bond issues, five Malta Government Securities issues and one fund. Two sub-funds were de-listed in 2011.

THE REGISTRY OF COMPANIES

Total Registrations and Active Registrations

As at end 2011, the Registry of Companies had registered 55,150 companies, 1,189 partnerships - "En Nom Collectif" and 93 partnerships - "En Commandite" since its inception. The (net) number of active companies and commercial partnerships on the Register at the end of 2010 was as follows: 37,404 companies, 882 partnerships - "En Nom Collectif" and 72 partnerships - "En Commandite".

Chart 21: Total registrations against net active (2010 – 2011).



Source: Malta Financial Services Authority

New Registrations

During the year, 3,384 new companies were registered in the Companies Registry. Additionally, 74 new commercial partnerships were registered, bringing the total to 3,458 new registrations and 328 more new registrations than the previous year.

Table 21: New registrations (2009 – 2011).

	Companies	Partnerships	Total
2009	2,612	66	2,678
2010	3,061	69	3,130
2011	3,384	74	3,458

Source: Malta Financial Services Authority

Mergers and Liquidations

There were 144 mergers of companies in 2011, while 920 companies were placed into liquidation during the year.

Table 22: Mergers and liquidation of companies (2009 – 2011).

	Mergers	Total companies placed into liquidation
2009	96	849
2010	137	991
2011	144	920

Source: Malta Financial Services Authority

Redomiciliation of companies

During 2011, 57 companies transferred their domicile to Malta in terms of the Continuation of Companies Regulations under the Companies Act.

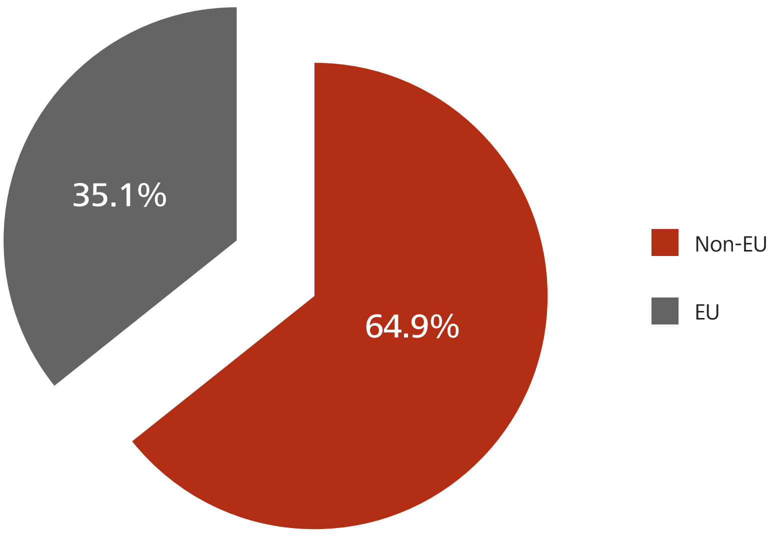
Table 23: Total inward redomiciled companies (2009 – 2011).

	Total redomiciled companies
2009	51
2010	64
2011	57

Source: Malta Financial Services Authority

Almost 35 per cent of the companies transferred their domicile to Malta from EU countries while about 65 per cent from Non-EU countries. Chart 22 outlines a breakdown of the redomiciled companies in 2011 by country of origin from EU or non-EU countries.

Chart 22: Redomiciled companies by country of origin from EU and Non-EU countries (2011).



Source: Malta Financial Services Authority

Table 24 represents a breakdown of the redomiciled companies in 2011 by type of operation.

Table 24: Breakdown of redomiciled companies in 2011 by type of operation.

	Total redomiciled companies
Construction	1
General Trading	1
Holding	10
IT Activities	3
Manufacture	2
Marketing/Promotion/Consultancy	1
Other	7
Private Investment	14
Property Activities	12
Real Estate	1
Securities	2
Shipping	3
Total	57

Source: Malta Financial Services Authority

Notifications for Inward Cross-Border Services

The number of notifications for the provision of cross-border services from other EU/EEA states increased further in 2011, which is further indication of the high level of integration that exists within the single market in financial services.

The below table represents a breakdown of entities that have notified the MFSA in 2011, through their home country regulator, that they will be passporting into Malta via the freedom of services.

Table 25: New notifications of passporting into Malta via the freedom of services in 2011.

Category	Number of companies
European Credit Institutions	16
European Financial Institutions	63
European Insurance Undertakings	40
European Insurance Intermediaries	343
UCITS Schemes (including sub-funds)	5
Investment Services	247
Multilateral Trading Facilities	1

Source: Malta Financial Services Authority

No notifications for the provision of cross-border services via the freedom of establishment were received during the year.

Notifications for Outward Cross-Border Services

There were 31 new notifications by Maltese companies to provide cross-border services outside Malta during 2011. Table 26 represents a breakdown of entities that have notified the MFSA that they will be passporting outside Malta via the freedom of services.

Table 26: New notifications of passporting outside Malta via the freedom of services in 2011.

Category	Number of companies
Credit Institutions	1
Financial Institutions	2
Insurance Undertakings	5
Insurance Intermediaries	3
Investment Services	8
CIS	12

Source: Malta Financial Services Authority

There was one investment services company in 2011 which notified the MFSA that it will be passporting outside of Malta via the Freedom of Establishment under MIFID and another investment service company under UCITS IV Directive.

Table 27: New notifications of passporting outside Malta via the freedom of establishment in 2011.

Category	Number of companies
Insurance Undertakings	1
Investment Services	2

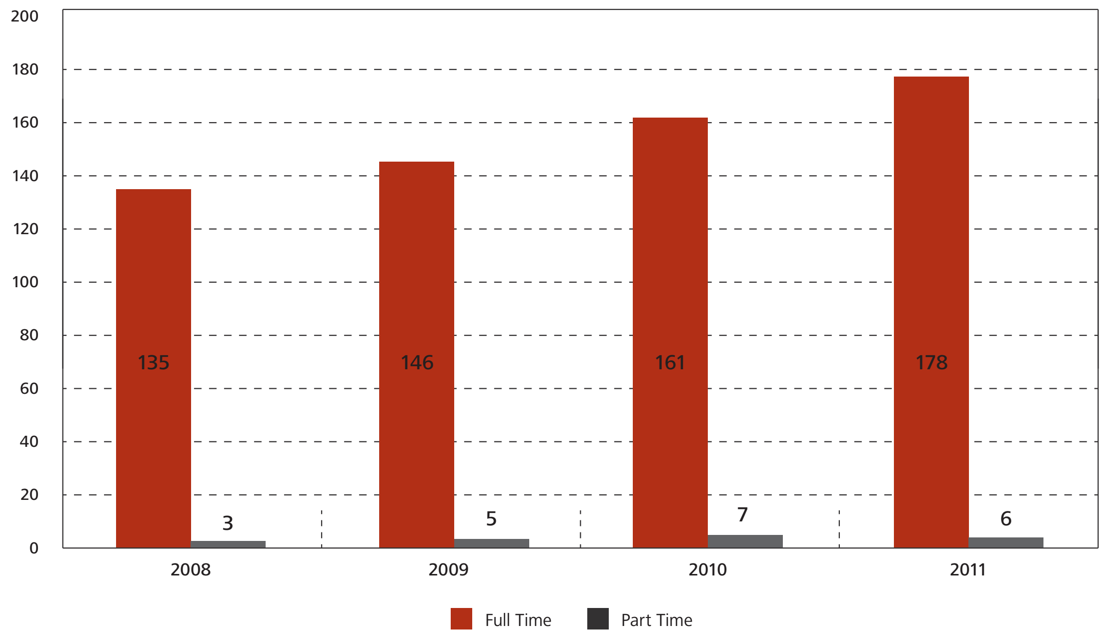
Source: Malta Financial Services Authority

DEVELOPMENT OVERVIEW

HUMAN RESOURCES DEVELOPMENT

Total staff complement at the MFSA as at end of December 2011 stood at 184.

Chart 23 – MFSA Employees 2008-2011

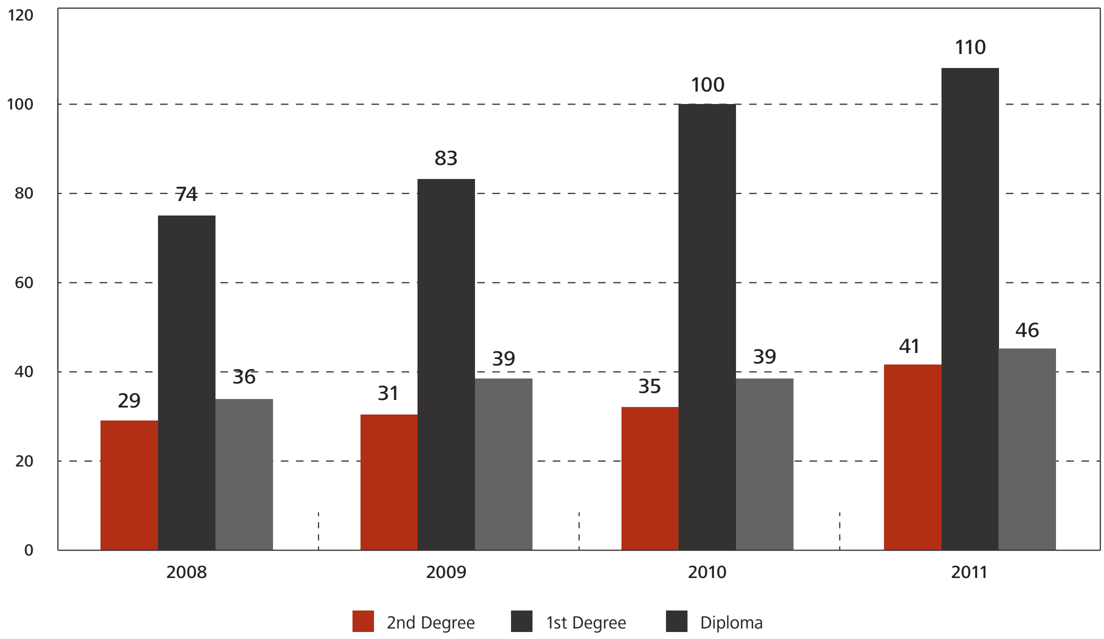


Source: Malta Financial Services Authority

During 2011, 26 new members of staff were recruited while nine people left the Authority.

At present, 110 of the current staff complement hold a first degree, of which 41 have also attained a post graduate degree or equivalent, the majority in finance and finance-related disciplines. Forty six staff members hold diplomas specifically relevant to their work with the Authority.

Chart 24 – MFSA Qualified Staff 2008-2011



Source: Malta Financial Services Authority

The Authority continued to encourage and support continuing training and development of its employees, and maintained its position as a core driver of a wide range of training programmes targeted at practitioners and employees of the financial services industry. The Authority's Education Consultative Council played a leading role in the management of the latter mentioned training programmes.

Employee Training and Development

As part of the Authority's commitment to training and development, the Human Resources and Development Unit continued to offer professional guidance and advice to staff who undertook self-directed programmes aimed at advancing their professional careers. At the end of 2011, through the MFSA's Self Development Scheme, 36 staff members were undertaking studies that involve specialisation in various disciplines. These covered a wide range of areas in financial services, which include accounting, ICT related studies, actuarial techniques, insurance related disciplines, trusts and estate management and law.

During 2011, the Authority continued to offer foreign attachment programmes to its staff members both within the finance industry itself and also with professional bodies of international repute.

Furthermore, several employees continued to build on their technical expertise through their participation in various working groups that had been set up within the European Banking Authority (EBA), the European Securities & Markets Authority (ESMA) and the European Insurance & Occupational Pensions Authority (EIOPA). In addition to professional development attained in terms of the Self Development Scheme, a considerable number of staff members also attended training programmes overseas.

On the international front, a staff member from the Registry of Companies acted as a co-chairman in the Financial Action Task Force (FATF) meetings and took part in a Country Evaluation related to the Prevention of Money Laundering & Financing of Terrorism.

Managerial staff at different levels of the Banking Supervision Unit attended various training programmes including, an EU Wide Stress Test programme, a Macro Stress Test programme, Banking Prudential Requirement, the Supervisory Colleges Cross-Sectoral Seminar, the Global Regulatory Framework for more resilient banks and banking systems (Basel III), the RAS & SREP programme for Host Countries, the EBA Roadshow at Banca D'Italia, the EEA IRB Model Validators' programme, the Oversight and Practices Training, the European Supervisory Authorities sub-committee on Anti-Money Laundering programme and the Working Party on Financial Services programme.

Insurance supervisors from the Insurance and Pensions Supervision Unit attended training programmes on various issues, including Reporting under Solvency II, the Internal Models (EIOPA) programmes and the Technical Provisions under SII (EIOPA).

Staff within the Securities and Markets Supervision Unit attended a number of sectoral and cross sector meetings including one on ESMA EECS, a programme on Case Studies, two programmes on ESMA Corporate Finance, the Securities Market Monitoring Methodologies programme, the ESMA FOREX Task Force, the Operational Risk Management programme, three ESMA Review sessions, the Investors' Expectation from Financial Information (ESMA), the IPISC programme.

A number of staff members from the Regulatory Development Unit attended a number of training programmes including the Macroprudential Tools and Techniques programme, the Financial Integration and Stability programme, the Analysis of Costs and Benefits of Regulation (EIOPA); Stress Testing (ATC); Open Hearings on Alternative Investment Fund Managers Directive (ESMA), the ALFI Global Distribution programme, and the FSA Annual International Seminar.

Staff from the Authorisation Unit attended in September a European Passport Experts Meeting and an EIOPA seminar on Internal Models.

Employees from the Consumer Affairs Unit participated in meetings related to Consumer Protection and FIN-NET meetings.

Two employees from the Information and Communication Technology Unit attended the XBRL Europe 22nd Conference and the Check Point Security Training programme.

International Seminars

The year 2011 was characterised by the Authority's increased involvement, through the support of the Human Resources & Development Unit and the Communications Unit, in the organisation and hosting of several regional seminars. The seminars covered a range of topics relating to the finance sector, which included among others: a programme in collaboration with BaFIN on Special Training for Banking and Presentation Skills seminar in January, the 4th Round Mutual Evaluation of Moneyval which was held in May, the Insurance Companies & Auditors, the UCITS IV Training Programme, the seminar on the Prospectus Directive, the FSA RISK Based Approach seminar in July, the Training In Risk Based Supervision in September, The Current Legal Environment Pertaining to Short Term Loan Industry, Fin-Net Plenary Meeting in October, the Irish Stock Exchange Training held in October, the Role of Regulation/Compliance & Corporate Governance seminar in November, and Presentation Skills.

Local Seminars

During 2011, the Authority continued with planned activities to address the need for further enhancement of employees' skills in the financial services sector. In conjunction with various training institutes, the MFSA offered training programmes with the objective of sustaining the on-going developments being experienced within the finance sector. Eighteen employees who were recruited by the MFSA during 2011 attended an Induction Course, also organised by the HR Unit.

During 2011, a total of 124 MFSA employees across all Units attended a total of 66 local courses or conferences held by local organisations, including PricewaterhouseCoopers Academy, Malta Institute of Accountants, Institute for Financial Services Malta, Institute of Financial Services Practitioners, Chamber of Advocates, Society of Trust and Estate Practitioners (Malta), Society Education, Malta International Training Centre, Institute for Professional Development (Malta), Institute of Legal Studies Malta, Foundation for Human Resources Development, BPP Professional Education (Malta), Malta Institute of Management, KPMG, The Active Group, and Law at Work (Malta).

EDUCATION CONSULTATIVE COUNCIL

Careers in the Financial Services Sector

As in previous years, the Human Resources and Development Unit continued to work closely with the MFSA's Education Consultative Council (ECC) by providing logistic, technical and secretarial support. The Unit Director continued to represent the MFSA on the Council.

Throughout the year under review, all members of the ECC were in some way or another actively involved in the creation of a website that contained factual information on careers in the financial services sector. The technical process continues to be managed and supported by the Authority's ICT Unit.

The ECC has provided support in relation to career guidance, vocational training, continuous professional development and the creation of new training programmes. The ECC has met five times throughout 2011 and maintained regular contact with the University of Malta, particularly the Faculty of Economics, Management and Accountancy (FEMA).

During the period February – December 2011 there has been an aggregate amount of 5,205 hits; this figure clearly shows that there has been a constant interest in the 'careersinfinance' website.

Homepage of the Careers in Financial Services website

Apart from this new development, the ECC also re-engaged in career promotion and awareness initiatives throughout 2011. These consisted of career orientation visits by secondary school students to the MFSA. These programmes were conducted by the MFSA in collaboration with the Career Guidance Services Unit of the Education Division, the Secretariat for Catholic Education and the Independent Schools Association. The primary target audience of the programmes were Forms IV and V students attending Government, Church and Independent Schools.

An overall number of about 1000 students (around 300 more than in 2010) visited the MFSA in 2011. The career orientation programme consisted of a presentation featuring a structured overview of existing financial services activities, the prospective career opportunities expected within the sector over the short to medium term and an overview of careers in finance. With the assistance of staff members from the Consumer Affairs Unit, students were familiarised with general information on financial literacy and other consumer affairs issues.

From a human resources perspective, 2011 was characterised by further efforts to adopt a practical approach to the promotion of careers in financial services. The Human Resources & Development Unit as in previous years joined forces with the Career Guidance Unit of the Education Division, the Secretariat for Catholic Education and the Independent Schools Association to co-ordinate a Job Exposure Programme. One hundred and twenty-one secondary school students (as compared to 77 in 2010) at higher levels had the opportunity of a five-working-day job exposure experience in different work environments spread across the financial services sector. In recognition of the need to tangibly promote careers in finance, 34 organisations (as compared to 19 in 2010) covering the whole spectrum of the local financial sector participated in the programme, including the MFSA. The programme, which involved two separate groups of students, was held during the weeks starting 4 July and 11 July 2011 respectively. Subsequently, students were awarded a Certificate of Achievement at a presentation ceremony on 19 July 2011.


Job exposure initiative - Presentation Ceremony July 2011

At the end of the year under review, 5,025 people from the Maltese finance sector had taken part in continuing education and training, provided by an educational institute in Malta or overseas, a professional body, an employer or via the ECC supported by the MFSA. This means that over half the people working in finance in Malta formally developed their personal skills and knowledge base on 2011 - a remarkable statistic and a clear indication of the quality of employees in the finance sector.

Annual Meeting with School Counsellors and Career Advisors

The annual meeting organised by the ECC for school counsellors and career advisors was held on 24 November 2011 at the MFSA Conference Hall.

This event has now become an established forum during which the ECC receives feedback on the various career related initiatives it undertakes. It also provides an opportunity for participants to propose new initiatives.

This year's meeting opened with a presentation on the Council's performance and activities delivered by Professor Charles Farrugia, ECC Chairperson. The meeting was followed by a question-and-answer session with the Chairman of the MFSA, Professor Joe V Bannister. During the session, Prof Bannister informed participants of the developments affecting employment within the sector, current and expected skills related demands and new career paths that are envisaged in view of the expansion that is being experienced by the financial services sector.

Of particular interest was the suggestion put forward by participating members regarding the need for the MFSA to support financial literacy awareness programmes aimed at students in forms I and 2. For this reason it was proposed that an extra-curricular pilot programme on financial literacy be introduced at a pre-selected College. In addition, it was suggested that news of such programme be included in the 'careersinfinance' website. Furthermore, it was also suggested that the 'My Moneybox' website be developed further to include financial literacy topics geared towards secondary school students. This suggestion has also led the Education Consultative Council to take the initiative towards the introduction of Accounting and Economics as optional subjects within the Government Secondary Schools. The Council has been in direct contact with Education Authorities and aired its views on this subject within the context of the review of the new national education curriculum.

INFORMATION AND COMMUNICATION TECHNOLOGY

The ICT Unit is composed of two Sections, one responsible for systems infrastructure and another for information systems.

SYSTEMS INFRASTRUCTURE

This systems infrastructure team is responsible for providing the underlying technological infrastructure that hosts the various software applications used by the organisation. The section is also responsible for ancillary systems such as telephony, access control and other security systems.

During 2011 various systems infrastructural projects were carried out.

Network Infrastructure

A comprehensive review of the computer network was undertaken to replace aging equipment and redundant core network technology. The programme was implemented in three phases and involved the installation of a network cluster and the upgrading of network connectivity and related safety and security features.

Backup System

The existing HP Data Protector backup solution has had its software upgraded in order to integrate better with the new versions of the virtual infrastructure - SharePoint, SQL and Exchange. This provides a seamless integration, especially with the virtual infrastructure where the majority of the servers reside.

Server Virtualisation

The existing server virtualisation platform was upgraded to ensure technology expandability and to consolidate server hardware. The existing virtual environment was transferred to an improved platform thereby enabling a better operational stability, manageability, scalability and security. This environment has numerous advantages such as rapid virtual machine boot up and redundancy in case of a host failure.

Enterprise Storage

The existing enterprise storage system has been partially expanded to cater for an increase in the Authority's data and servers' storage. This has been expanded with a further 1.2TB thereby providing additional storage allocation capacity for the virtual infrastructure and the active directory services.

Miscellaneous projects

Other projects completed during the past year included: the upgrading of telecoms rooms; installation of structured cabling to sustain premises refurbishment; expansion of of e-mail archive storage capacity; replacement of uninterrupted-power-supply systems; installation of additional servers to accommodate new solutions; and other hardware infrastructure and licence upgrades.

Information Systems

A number of new and upgraded software solutions were deployed during the year, both on a corporate-wide basis and within the individual Units. These initiatives fall within the responsibility of the information systems team within the ICT Unit.

Corporate-wide services

MFSA Website

Improvements to the MFSA website included the development of a new module capable of holding extensive information on MFSA licence holders destined for public or restricted viewing. Another module was developed for the better management of MFSA announcements and the introduction of MFSA RSS feeds.

Intranet Additional Services

The MFSA Intranet is a web-based portal, hosting about ten other internal systems that were custom-developed for use by all MFSA employees. The main systems include among others a leave management system, stationery management system, SMS service, travel reports repository, transport booking, employee map, news and information resources, telephone extension search facility and an ICT Help Desk.

All the abovementioned systems were revamped using the latest AJAX technologies and web services to enhance user experience, and provide better performance and efficiency. All components are compatible with Microsoft Internet Explorer 8 and Mozilla Firefox 8 or later.

Visitor Management System

A new software package was recently deployed at the MFSA to better manage visitor access. The system enables the reception desk to log visitor flows and issue visitor cards for use on premises.

Unit Support Systems

European Supervisory Developments

The information systems team continued to assist the regulatory and supervision units in monitoring IT-related initiatives originating from the respective European authorities, namely: European Insurance and Occupational Pensions Authority (EIOPA); European Banking Authority (EBA) and European Securities and Markets Authority (ESMA). Most of the work involved the deployment and implementation of various systems aimed to harmonize standards and regulation across all European National Standard Authorities (NSAs).

The Information Systems team and the Insurance and Pensions Supervision Unit, continued to monitor the progress in relation to the Solvency II XBRL reporting requirements put forward by the European Insurance and Occupational Pensions Authority (EIOPA). A process to evaluate different solutions available on the market was initiated. This is expected to continue until the right tool is selected.

Licence Holder Document Management System – Prototype

A prototype document management system based on Microsoft's SharePoint 2010 platform was also developed in collaboration with the Regulatory Development Unit. This involved the drawing up of a 'User Requirements and Specification' document and development of the initial prototype providing a wide range of functionalities for further evaluation by the Units concerned. This exercise also involved a technological upgrade on the backend platform to keep abreast with the most recent versions of the SharePoint enterprise content management system (ECM).

Financial Reporting Engine and Database (FRE/D)

This database and reporting engine is used to store and retrieve statistical information from regulatory returns for analytical purposes. The database is deployed in the three supervisory Units. Work on the database carried out this year included the introduction of a new logging module, the upgrading of the authentication mechanism and a review of backup procedures to ensure the robustness of restore functionality.

Centralized Reporting of Company Information

Using SQL Server Report Services (SSRS) we have automated various reports that are frequently requested by several departments within MFSA. All reports are made available through SharePoint Sites where users having access can directly run the respective reports according to their needs, cutting down on internal delivery processing time

End-users can also select from a variety of viewing and reporting formats and can also export reports to other applications like Microsoft Excel for further analysis. Subscription to any of the published reports is also possible.

Consumer Complaints Management

2011 saw a great effort being made by the Information Systems team to replace a legacy 'Case Management' system. The new solution that was developed provides a more user-friendly interface and is rich in new functionality that is capable of automating different processes including some that were requested by European Commission (DG Sanco) in its recommendations aimed at providing a harmonized approach for the classification and reporting of consumer complaints across all European countries.

All complaints that are completed by the CCU must be synchronized to a central European hub. For this reason, the newly created application will auto-generate an XML file from the data that is inputted into the backend database from the web application itself. The XML file will be then validated against the XSD Schema provided by the Commission and once valid is then uploaded to the European hub by MFSA staff. Each file is also stored locally for future reference.

Other features include auto-crosscheck of licence holders, integration with the national electoral register, file management mechanism, auto-generation of acknowledgements, generation of letters/emails and an oral case management component.

According to the commission, this initiative will allow for a quicker and better targeted policy response at both national and EU levels.

My Money Box – Additional Services

Further enhancements to improve the security of the consumer website were carried out. Considerable work was carried out on access rights and authentication mechanisms. Other add-ons developed this year include the integration of site search facilities and an animated navigation menu.

Registry of Companies

ROC Online System New Functionality

Further modifications in the online submission functionality were carried out, while Company Forms that can be signed electronically continued to be rolled out on an ongoing basis.

In November, the ICT Unit participated in a group meeting organised by the European Business Register Group (EBR) in Rome. The main aim of this meeting was to discuss technical aspects related to the EBR platform and how registries can integrate with this platform whose main intention is the provision of reliable and up-to-date information.

The Information Systems team also participated in various internal meetings to monitor the progress of XBRL, mainly in relation to the submission of accounts to companies' registries in Europe and elsewhere.

COMMUNICATIONS UNIT

The Authority continued to support and enhance its communications function, mainly in making the Authority more visible internationally and in making information on the MFSA more accessible and more easily understood.

General and specific enquires to the MFSA rose by 25% during the year and its website attracted over 73,000 visitors. These are substantial figures for a financial regulatory organisation.

The Unit's remit includes the overseeing and logistical backup of events that the Authority undertakes. In 2011, these included the Malta Fund Servicing Conference in May, now established as a calendar event, the Society of Trust and Estate Practitioners (STEP) Conference held in March, the Malta International Crime Forum in May, The Hedge Fund Re-domiciliation for Managers conference in Geneva held in June, the Risk Frontiers – Solvency II conference in October, the Management of Cross Border Risks conference that was held in Frankfurt in November, the FERMA Risk Management Forum in Stockholm in October, The Malta Conference on European Funds Regulation & Supervision that was held in December and the Malta Insurance Management Association (MIMA) Conference on Insurance in December.

The Authority also organised a number of events for regulated entities to disseminate new regulatory and policy developments and keep the industry updated on other important regulatory issues. In May, the Authority hosted a number of events that included the MONEYVAL Committee of Experts meeting on the Evaluation of Anti-money Laundering Measures and Financing of Terrorism, and a well-attended MFSA seminar in July held for insurance companies and their auditors on reporting under the Solvency II Framework.

A 'Stress test Seminar for Industry Representatives in Malta' was held in November by the Office of the Superintendent of Financial Institutions of Canada (OSFI).

The MFSA also hosted the Plenary Meeting of FIN-NET in October during which the Commission representatives gave FIN-NET members an update on developments in financial services and consumer protection at European level.

FIN-NET seminar's panel - left to right, Ms Malgorzata Feluch, EC DG Internal Market & Services, Mr Phillipe Pellé, EC DC Internal Market & Services, Mr Geoffrey Bezzina, MFSA

A special event that featured in January 2011 regarded the presentation on an independent assessment of the MFSA's adherence to Basle Core Principles for banking, IOSCO Principles on securities and IAIS Principles for insurance. The assessment is available on the MFSA website www.mfsa.com.mt under the heading About Us/Reports.

Presentation on the Independent Assessment of the MFSA - left to right: Professor Joe V. Bannister, Mr Piero Ugolini

The MFSA also supported events and training initiatives organised by local entities including FinanceMalta's 4th Annual Conference held in May, the Chamber of Advocates' training seminars held in February and November, The Malta Institute of Management workshops held in July and October, 30 training seminars held by the Institute of Financial Services Practitoners (IFSP), 16 seminars held by the Institute of Financial Services (IFS), 15 seminars by the Institute of Legal Studies (ILS), seven seminars held by the Malta Insurance Management Association (MIMA), four workshops by the Association of Insurance Brokers (AIB), and the Intrapriza Malta event organised by the Ministry of Finance, the Economy and Investment.

Registry of Companies participation in the SME Week 2011 organised by Intrapriza Malta

The Unit also provides on a regular basis logistical support for meetings and seminars held by third parties within the MFSA premises. These events totalled 180 during 2011.

On the international media front the Communications Unit responded to and managed media interest from across the globe, including features in HFM Week, Hedgeweek, Latam Fund Manager, The Guardian newspaper, The Banker, PWM Professional Wealth Management, and Captive Review. Frequent contact was maintained with the Maltese media and the Unit also dealt with enquiries from academic and other researchers worldwide.

The Unit also oversees the publication of the Annual Report, the monthly Newsletter and the Quarterly Update. The Strategic Plan for 2011-2014 was also issued in 2011.

Throughout the year the Unit also maintained contact with the European Supervisory Authorities Press Offices.

In 2011, the Authority issued through the Unit 66 Notices, 20 Circulars, 12 Media Releases, 10 Warnings, 11 Consultation Papers and six feedback Statements. Once these documents are published on the MFSA Website, the relevant documents are sent to MFSA Licence Holders, subscribers and local and international connections. At the end of 2011 the Authority's e-contact database included over 2,000 subscribers.

The Intranet service continued to expand and in 2011 there were 271 Regulatory notices that were issued to staff together with 85 Corporate Notices.

Other functions incorporated under the remit of the Unit include Corporate Social Responsibility and Green initiatives.


MFSA
Malta Financial Services Authority
www.mfsa.com.mt
MFSA Newsletter - September 2011

The MFSA Newsletter - In 2011 there were over 1,500 subscribers to the Newsletter

The Unit also oversees the Library and provides related services to staff.

CONSUMER AFFAIRS

The Consumer Affairs Unit houses the work 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. While decisions of the Consumer Complaints Manager are non-binding, consumers and companies frequently agree to the findings and recommendations of the manager.

The Unit is also responsible for providing consumer education and information about financial services and answering queries from the public on financial services matters in general. The Unit also assists the MFSA to identify issues as well as developments which may affect consumer confidence.

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.

During the year, the Unit received 374 formal complaints and 320 verbal complaints. The Unit also received over 1500 phone calls from consumers enquiring on various subjects. Statistically, a major number of enquiries were related to the coverage of the depositor compensation scheme for bank deposits and the state of play in relation to particular investment products and funds.

A total of 140 cases were reviewed and concluded, which include a number of cases carried forward from previous years.

Table 28 – Formal Complaints 2010-2011

	Formal Complaints						Verbal Complaints		Queries	
	Cases Received		Cases Closed*		Pending cases					
Complaints related to:	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Banking	28	39	26	43	10	9	48	43	466	147
Insurance	63	87	74	87	17	28	105	88	471	258
Investments	277	41	30	21	344	97	116	53	493	168
Others	6	5	10	4	1	5	51	4	90	48
Total	374	172	140	155	372	139	320	188	1520	621

** Includes cases received in 2009 and 2008*

Source: Malta Financial Services Authority

Investment-related complaints constituted a substantial part of the number of complaints received, and processed, during 2011. In the main, these concerned allegations made by investors against a bank relating to mis-selling of an experienced investor fund. Detailed review of these complaints is at an advanced stage and the Authority expects to finalise the outcome of these complaints during the first semester of 2012, along with its regulatory review of the selling practices of this fund.

As a result of a lengthy and detailed investigation, the Authority upheld complaints lodged in 2009 by investors against a bank in relation to allegations of bad advice and non-disclosure of information concerning certain securities, including perpetual and other preferred securities issued by Lehman Bros, Royal Bank of Scotland, HBOS and others. The bank accepted the Authority's recommendation to reinstate some complainants to the same position they were in prior to their investment. In addition, the Authority imposed a substantial fine on the same bank for regulatory breaches to investment services rules which it identified during its lengthy investigation. The bank is appealing the Authority's decision. In the meantime, during the year, a further number of investors submitted complaints against the bank requesting the Unit to investigate the manner in which the same type of preferred securities had been sold and explained to them. Each case is being reviewed on its own merits and along the same parameters the Authority has employed in determining the "2009" cases.

Progress has also been made in regard to a complex review of the manner in which a structured product had been sold to investors and which failed to meet expectations of promised guarantees on income and capital. As part of the Unit's investigations, the Securities & Markets Supervision Unit (SMSU) was actively consulted for assistance and guidance on various aspects, including the application and interpretation of investment services directives. The Authority is determined to intensify its investigations on these cases during the first part of 2012.

The Unit has been very active in the Maltese broadcasting media which is considered to be an important platform through which consumers are educated on various matters relating to financial services. On average, Unit officials participated in four television programmes and two radio broadcasts almost on a weekly basis to discuss a wide range of financial subjects and issues relevant to the rights of consumers purchasing financial products.

New subjects were added to "MyMoneyBox", the Authority's internet portal which provides impartial information to consumers about financial products and services. Some sections have also been translated into Maltese. The Unit is also using Facebook to promote MyMoneyBox and reach out to a broader network of consumers. A monthly electronic newsletter is also sent to subscribers of the portal. The database of tariffs and charges levied on a number of financial products and services continues to be an important feature aimed to facilitate comparison of charges between different providers. The Authority will be widening the scope of the online database by including comparative features of a number of insurance products, starting with motor insurance.

The Authority hosted the second plenary meeting of 2011 of the 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 Authority's Consumer Complaints Manager is an active member of FIN-NET and 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.

The Consumer Complaints Unit is also an active member on the EIOPA Committee on Consumer Protection.

A full report on the activities of the Office of the Consumer Complaints Manager is published separately.

APPENDICES

APPENDIX I – ACTS AND LEGAL NOTICES

ACTS

- Act II of 2011 – Banking (Amendment) Act, 2011
- Act X of 2011 – Various Financial Services Laws (Amendment) Act, 2011
- Act XVI of 2011 – Retirement Pensions Act, 2011

LEGAL NOTICES

Banking Act

- Declaration of Bank Holidays [L.N. 6 of 2011]
- Banking (Amendment) Act, 2011 (Act II of 2011) Commencement Notice [L.N. 108 of 2011]
- Banking (Amendment) Act, 2011 (Act II of 2011) Commencement Notice [L.N. 238 of 2011]
- European Passport Rights for Credit Institutions, Regulations, 2011 [L.N. 459 of 2011]
- Declaration of Bank Holidays [L.N. 507 of 2011]

Companies Act

- Companies Act (SICAV Incorporated Cell Companies) Regulations, 2010 (Commencement Notice)
- Companies Act (Incorporated Cell Companies carrying on Business of Insurance) Regulations, 2011 (Commencement Notice)
- Companies Act (Forms) (Amendment) Regulations, 2011

Financial Institutions Act

- Financial Institutions Act (Safeguarding of Funds), Regulations 2011
- European Passport Rights for Financial Institutions Regulations, 2011

Insurance Business Act

- Insurance Business (Fees) (Amendment) Regulations, 2011
- Protection and Compensation Fund (Amendment) Regulations, 2011

Investment Services Act

- Investment Services Act (Contractual Fund) Regulations, 2011
- Investor Compensation Scheme (Amendment) Regulations, 2011
- Investment Services Act (Financial Capital Adequacy Consolidation) Regulations, 2011
- Investment Services Act (Marketing of UCITS) Regulations, 2011
- Investment Services Act (UCITS Mergers) Regulations, 2011
- Investment Services Act (UCITS Management Company Passport) Regulations, 2011

Malta Financial Services Authority Act

- Malta Financial Services Authority (Extension of the Meaning of Certain Expressions) (Revocation) Regulations, 2011
- Malta Financial Services Authority (Control of Offshore Insurance Business) (Revocation) Regulations, 2011
- Malta Financial Services Authority (Control of Offshore Banking Business) (Revocation) Regulations, 2011
- Licenced Nominees (Fees) (Revocation) Regulations, 2011
- Financial Conglomerates (Amendment) Regulations, 2011

Retirement Pensions Act

- Retirement Pensions Act, 2011 (Act XVI of 2011) (Commencement Notice)

Set-Off and Netting on Insolvency Act

- Financial Collateral Arrangements (Amendment) Regulations, 2011

APPENDIX II – RULES – ISSUED AND REVISED

BANKING RULES

• Banking Rule 2 of 2011	Large Exposures of Credit Institutions authorised under the Banking Act 1994
• Banking Rule 3 of 2011	Own Funds of Credit Institutions authorised under the Banking Act 1994
• Banking Rule 4 of 2011	Capital Requirements of Credit Institutions Authorised under the Banking Act 1994
• Banking Rule 7 of 2011	Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994
• Banking Rule 8 of 2011	Capital Adequacy of Credit Institutions Authorised under the Banking Act 1994
• Banking Rule 10 of 2011	Supervision on a Consolidated Basis of Credit Institutions Authorised under the Banking Act 1994
• Banking Rule 12 of 2011	The Supervisory Review Process of Credit Institutions Authorised under the Banking Act 1994

FINANCIAL INSTITUTIONS RULES

• Financial Institution Rule 1 of 2011	Application Procedure and Requirements for Authorisation of Licences under the Financial Institutions Act 1994
• Financial Institution Rule 2 of 2011	Supervisory and Regulatory Requirements of Institutions under the Financial Institutions Act 1994
• Financial Institution Rule 3 of 2011	Taking up, Pursuit of and Prudential Supervision of the Business of Financial Institutions Authorised to Issue Electronic Money under the Financial Institutions Act 1994

INVESTMENT SERVICES RULES

- Investment Services Rules for Investment Services Providers
- Investment Services Rules for Retail Collective Investment Schemes

INSURANCE BUSINESS RULES

• Insurance Business Rule 6 of 2011 -	Schemes of Operations Relating to Business of Insurance

INSURANCE INTERMEDIARIES RULES

• Insurance Intermediary Rule 17 of 2007 -	Application for Persons to be Entered in the Tied Insurance Intermediaries List
• Insurance Intermediary Rule 18 of 2007 -	Business of Insurance Not Subject to Tied Insurance Intermediaries Activities

LISTING RULES

- Listing Rules revised as at 3 June 2011

APPENDIX III – CIRCULARS

Alternative Investment Fund Managers Directive

- 2nd Circular Regarding the Alternative Investment Fund Managers Directive
- Circular to the financial services industry regarding the Alternative Investment Fund Managers Directive
- Circular to the financial services industry on recent documents issued by ESMA in the field of investment management

Anti-Money Laundering

- Improving Global AML/CFT Compliance: update on-going process
- FATF Public Statement - 25 February 2011
- FIAU - Implementing Procedures in terms of the provisions of the Prevention of Money Laundering and Funding of Terrorism Regulations - Part 1
- FIAU - Implementing Procedures in terms of the provisions of the Prevention of Money Laundering and Funding of Terrorism Regulations - Part 2 (relating to banking sector)
- FATF Public Statement - 28 October 2011

Companies Act

- Note for Information on the Companies Act (Amendment of the Tenth Schedule) Regulations, 2010 [L.N. 561 of 2010]
- Note for Information on the Companies Act (Incorporated Cell Companies Carrying on Business of Insurance) Regulations, 2010 [L.N. 558 of 2010]
- Note for Information regarding the Companies Act (SICAV Incorporated Cell Companies) Regulations, 2010 [L.N. 559 of 2010]

Insurance Business

- Publication of rules on Programmed Withdrawal Arrangements

Securities and Markets Supervision

- Note for Information - Investment Services Act (Contractual Funds) Regulations, 2010 [L.N. 3 of 2011]
- Circular addressed to the investment services industry regarding the transposition of CRD II and part of CRD III
- Circular letter regarding the Regulatory Disclosure by investment services licence holders required under Standard Licence Conditions 7.49 & 7.50 of Part B of the Investments Services Rules for Investment Service Providers

Solvency II

- Malta Country Report on the fifth Quantitative Impact Study (QIS5) for Solvency II Publication of rules on Programmed Withdrawal Arrangements
- Guidance Paper on Supervisory Reporting and Public Disclosure Requirements

Trusts and Trustees

- Circular addressed to companies authorised to act as trustees in terms of article 43 of the Trusts and Trustees Act

UCITS IV

- Publication of Investment Services Rules for Investment Services Providers updated to transpose and implement the UCITS IV Directive
- Publication of Investment Services Rules for Retail Collective Investment Schemes updated to transpose and implement the UCITS IV Directive
- Information Note on the transposition of the UCITS IV Directive

APPENDIX IV – CONSULTATION PAPERS AND FEEDBACK STATEMENTS

CONSULTATION PAPERS AND FEEDBACK STATEMENTS ISSUED BY THE BANKING SUPERVISION UNIT

Financial Institutions Act – Consultation Papers

- Consultation on a proposal for amendments to Financial Institutions Act (E-Money Institutions), and new Financial Institutions Rule FIR/03

Financial Institutions Act – Feedback Statements

- Feedback Statement on the proposal for amendments to Financial Institutions Act (E-Money Institutions), and new Financial Institutions Rule FIR/03

CONSULTATION PAPERS AND FEEDBACK STATEMENTS ISSUED BY THE INSURANCE AND PENSIONS SUPERVISION UNIT

Insurance Intermediaries Act – Consultation Papers

- Consultation Procedure on Proposals for amendments to Insurance Intermediaries Rules 17 of 2007 and 18 of 2007

Insurance Business Act – Feedback Statements

- Feedback Statement on Programmed Withdrawal Arrangements

CONSULTATION PAPERS AND FEEDBACK STATEMENTS ISSUED BY THE SECURITIES AND MARKETS SUPERVISION UNIT

Investment Services Act – Consultation Papers

- Consultation document on the transposition of the UCITS IV and the implementation of the CESR MMF Guidelines
- Consultation on the proposed new Regulations to transpose certain requirements of the UCITS IV Directive
- Consultation Procedure on the proposed changes to the Investment Services Rules largely to transpose the UCITS IV Directive
- Consultation Procedure on the proposed changes to the Investment Services Rules for Retail Collective Investment Schemes largely to transpose the UCITS IV Directive

Investment Services Act – Feedback Statements

- Feedback statement on the consultation on the proposed new Regulations largely to transpose the UCITS IV Directive Requirements
- Publication of Investment Services Rules for Investment Services Providers updated to transpose and implement the UCITS IV Directive
- Publication of Investment Services Rules for Retail Collective Investment Schemes updated to transpose and implement the UCITS IV Directive

Listing Rules – Consultation Papers

- Consultation on the proposed amendments to Listing Rule 4.55 and the introduction of other Listing Rules regarding Advertisements
- Consultation on the proposed amendments to Listing Authority policies published on 16 August 2010
- Consultation document on the proposed Second Tier Market Rules
- Consultation document on the proposed amendments to the Listing Policies relating to the preparation of the Financial Soundness Report

Listing Rules – Feedback Statements

- Feedback Statement further to Industry Responses to MFSA Consultation document dated 12 August 2011 on the proposed amendments to Listing Authority policies

Companies Act – Consultation Documents

- Consultation Procedure on the Proposals for Recognised Incorporated Cell Companies Regulations

EU CONSULTATION DOCUMENTS AND FEEDBACK STATEMENTS

EU Consultation Documents

- EIOPA consultation process on a Draft Response to Call for Advice on the scope of Directive 2003/41/EC
- EIOPA - Developing harmonized Solvency II Quantitative Reporting Templates
- Consultation by the European Insurance and Occupational Pensions Authority (EIOPA) on the equivalence assessment of Bermuda, Japan and Switzerland
- EIOPA consultation process on the Draft Response to Call for Advice
- EIOPA consultation process on the Draft Report on Good Practices for Disclosure and Selling of Variable Annuities
- EIOPA consultation process on the Guidelines for the Own Risk and Solvency Assessment (ORSA) for Solvency II
- EIOPA consultation process on the Supervisory Reporting & Public Disclosure in the Solvency II framework
- EIOPA consultation process on the proposed Guidelines on Complaints-Handling by Insurance Undertakings
- EIOPA consultation process on the Proposal for Quantitative Reporting Templates for Financial Stability Purposes

EU Feedback Statements

- EIOPA reports on the equivalence assessment of Bermuda, Japan and Switzerland

APPENDIX V: ISSUED AND SURRENDERED LICENCES

NEW LICENCES

BANKING

Financial Institutions

- Financial Institution licence issued to Michael Grech Financial Investment Services Limited.
- Financial Institution licence issued to Syspay Limited.
- Financial Institution licence issued to EnterCash Limited.

INSURANCE BUSINESS

Insurance Undertakings

- Licence issued to Abbey International Insurance PCC Limited to carry on business of insurance in 18 classes of the general business.
- Licence issued to SN SecureCorp Insurance Malta Limited to carry on business of insurance in three classes of the general business.
- Licence issued to Oney Insurance (PCC) Limited to carry on business of insurance in five classes of the general business.
- Licence issued to Oney Life (PCC) Limited to carry on business of insurance in one class of the long term business.
- Licence issued to Highdome PCC Limited to carry on business of insurance and reinsurance in six classes of the general business.
- Licence issued to ArgoGlobal SE to carry on business of insurance in two classes of the general business.

Protected Cells

- A16 has been approved as a cell of White Rock Insurance (Europe) PCC Limited.
- Absolut Cell has been approved as a cell of Abbey International Insurance PCC Limited.
- Totemic Cell has been approved as a cell of Atlas Insurance PCC Limited.

Enrolment of Insurance Manager

- STM Malta Insurance Management Limited has been granted enrolment in the Managers List.
- HSBC Insurance Management Services (Europe) Limited has been granted enrolment in the Managers List.

Enrolment of Insurance Agents

- Citadel Health Insurance Agency Limited has been granted enrolment in the Agents List.

Enrolment of Insurance Brokers

- Smart Insurance Brokers Limited has been granted enrolment in the Brokers list.
- Northcourt Limited has been granted enrolment in the Brokers list.

INSURANCE BUSINESS LICENCES - EXTENSIONS/REVISIONS

Insurance Undertakings

- Extension of licence issued to GasanMamo Insurance Limited to carry on business of reinsurance in 12 classes of the general business.
- Extension of licence issued to Axeria Re Limited to carry on business of reinsurance in two classes of the general business.
- Extension of licence issued to Nissan International Insurance Limited to carry on business of reinsurance in two classes of the general business.
- Extension of licence issued to St. Julians Insurance Company Limited to carry on business of insurance in four classes of the general business.
- Extension of licence issued to RCI Insurance Limited to carry on business of reinsurance in one class of the general business.

Insurance Agents

- Extension of licence issued to MIB Insurance Agency Limited to act as an insurance agent of Lloyds' Argo Syndicate 1200 in one class of the general business, and to act as an insurance agent of The Catlin Syndicate at Lloyd's (Syndicate 2003) & Others in four classes of the general business of re-insurance.
- Extension of licence issued to Montaldo Insurance Agency Limited to carry on business of insurance in 18 classes of the general business.

Insurance Brokers

- Approval for the conversion of KDM Insurance Brokers Limited into a cell company. KDM Insurance Brokers Limited was renamed to KDM Insurance Brokers PCC Limited.

INVESTMENT SERVICES

- Category 1A Investment Services Licence issued to Phenom Directors Limited.
- Category 2 Investment Services Licence issued to AUM Asset Management Limited.
- Category 2 Investment Services Licence issued to Swiss Settlements Fund Management Limited.
- Category 2 Investment Services Licence issued to Alpha Value Management Limited.
- Category 2 Investment Services Licence issued to PVE Capital Limited.
- Category 2 Investment Services Licence issued to Afex (Europe) Limited.
- Category 2 Investment Services Licence issued to Temple Asset Management Limited.
- Category 2 Investment Services Licence issued to Exante Limited.
- Category 2 Investment Services Licence issued to Futura Investment Management Limited.
- Category 2 Investment Services Licence issued to Calamatta Cuschieri Investment Management Limited.
- Category 2 Investment Services Licence issued to TradExec (TEX) Limited.

- Category 2 Investment Services Licence issued to NBG Bank Malta Limited.
- Category 2 Investment Services Licence issued to Prestige Capital Management Limited.
- Category 2 Investment Services Licence issued to Hornchurch Limited.
- Category 2 Investment Services Licence issued to Portman Capital Management Limited.
- Category 2 Investment Services Licence issued to FCS Asset Management Limited.

Investment Services – Extensions, Revisions and Mergers

- A revised Category 2 Investment Services Licence issued to Numen Investments Limited Limited to include the provision of management services to Professional Clients.
- A revised Category 3 Investment Services Licence issued to Calamatta Cuschieri & Co. Limited to extend its licence to provide management services to Retail Clients and Professional Clients (excluding Collective Investment Schemes) in relation to the instruments for which it is licensed.
- Licence issued to Joseph Scicluna Investment Services Limited has been revised from a Category 1A to a Category 2.
- Licence issued to Rizzo, Farrugia & Co. (Stockbrokers) Limited has been revised from a Category 2 to a Category 3.

Recognised Fund Administrators

- Certificate issued to Alpha Value Management Limited.
- Certificate issued to Castlegate Fund Services Limited.
- Certificate issued to Alter Domus Services (Malta) Limited.
- Certificate issued to Tromino Financial Services (Malta) Limited.
- Certificate issued to Trident Fund Services (Malta) Limited.
- Certificate issued to Helvetic Fund Administration (Malta) Limited.

COLLECTIVE INVESTMENT SCHEMES

Professional Investor Funds – Qualifying Investors

- Collective Investment Scheme licence issued to 3 Sigma Riskcap SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Abbey Capital Fund LP in respect of fifteen sub-funds.
- Collective Investment Scheme licence issued to Accuris Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Amati Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Amstel Alternative Credit Fund SICAV plc.
- Collective Investment Scheme licence issued to Athena Capital Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Audentia Capital SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to AUM Global Platform SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Axiom Capital Partners SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Blue Umbrella Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Brightwell Portfolio Fund SICAV plc in respect of eighteen sub-funds.
- Collective Investment Scheme licence issued to Capital Investments (SICAV) plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Cosmos Diversified Emerging Markets Fund SICAV plc.
- Collective Investment Scheme licence issued to CTH SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to DTMR Management SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Excellence Investment Umbrella SICAV plc in respect of one sub-fund.

- Collective Investment Scheme licence issued to EYRY VIII Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to FfM Mittelstand SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Forsythe Investment SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licences issued to HMP Woodman Funds SICAV plc in respect of three sub-funds.
- Collective Investment Scheme licences issued to Innocap Fund SICAV plc in respect of nine sub-funds.
- Collective Investment Scheme licences issued to Kerylos Malta SICAV plc in respect of three sub-funds.
- Collective Investment Scheme licences issued to Knights of Malta Investment Fund SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licence issued to Lascaris Capital Fund SICAV plc.
- Collective Investment Scheme licence issued to Level E Capital SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to MCM Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Meltemi Capital SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Meridon Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Metatron Capital SICAV plc in respect of three sub-funds.
- Collective Investment Scheme licences issued to NBCG Fund SICAV plc in respect of eight sub-funds.
- Collective Investment Scheme licences issued to Norwatt Nordic Power SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licence issued to Novium Opportunity Umbrella SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Orange Capital Funds SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licence issued to Paragon SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to PerSYSTEMcy SICAV plc.
- Collective Investment Scheme licence issued to Petra Umbrella Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Pluri-Invest SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to PMG Focus Funds SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licences issued to Polaris Finance SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licences issued to Prestige SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licence issued to Prime Pan-Asia Investment Fund SICAV plc.
- Collective Investment Scheme licences issued to Privaxis Umbrella Fund SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licences issued to Priveq Funds SICAV plc in respect of three sub-funds.
- Collective Investment Scheme licence issued to R&R Quality Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to RBAM I Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Resco Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to RohFund Global SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to RPS Umbrella Fund (Malta) SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licence issued to Sabius SICAV Limited in respect of one sub-fund.
- Collective Investment Scheme licence issued to Sarum Investment SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Solar Investments Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Swiss Investment Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Taliti Funds SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licence issued to Tertius SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to The ARP Funds (SICAV) plc in respect of two sub-funds.

- Collective Investment Scheme licence issued to The Gandon Macro Fund SICAV plc.
- Collective Investment Scheme licences issued to The Nascent Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to TPO Global Opportunities SICAV plc in respect of six sub-funds.
- Collective Investment Scheme licence issued to Valoris Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Venus Multi-Strategy Fund SICAV plc in respect of seven sub-funds.
- Collective Investment Scheme licences issued to Villers Investment Funds SICAV plc in respect of three sub-funds.
- Collective Investment Scheme licence issued to Willer Opportunities (Malta) SICAV Limited in respect of one sub-fund.

Professional Investor Funds – Experienced Investors

- Collective Investment Scheme licences issued to Falcon Investment Property SICAV plc in respect of three sub-funds.
- Collective Investment Scheme licence issued to Global Market Neutral Strategies SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to PMG Focus Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Somerset Capital Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Swiss Settlements Fund.

Professional Investor Funds – Extraordinary Investors

- Collective Investment Scheme licences issued to Futura Funds SICAV plc in respect of four sub-funds.
- Collective Investment Scheme licences issued to JFP Investments (SICAV) plc in respect of three sub-funds.
- Collective Investment Scheme licences issued to S3 Global-Multi Strategy Fund (Valletta) SICAV plc in respect of three sub-funds.
- Collective Investment Scheme licence issued to Tertius SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Tuffieh Funds SICAV plc in respect of four sub-funds.

Professional Investor Funds – Qualifying and Extraordinary Investors

- Collective Investment Scheme licences issued to The Nascent Fund SICAV plc in respect of one sub-fund.

UCITS

- Collective Investment Scheme licences issued to Invictus SICAV plc in respect of nine sub-funds.
- Collective Investment Scheme licence issued to AVC Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Temple Global Fund SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licences issued to Solid Future UCITS Funds SICAV plc in respect of two sub-funds.

Non-UCITS

- Collective Investment Scheme licences issued to Calamatta Cuschieri Funds SICAV plc in respect of two sub-funds.

Collective Investment Schemes – Conversions

- Collective Investment Scheme licence issued to LandOverseas Fund SICAV plc - LandOverseas Property Fund was revised from PIF targeting Experienced Investors to PIF targeting Qualifying Investors.
- Collective Investment Scheme licence issued to J&T Advanced Solutions SICAV plc - J&T Alternative Investments Fund was revised from PIF targeting Qualifying Investors to PIF targeting Experienced Investors.
- Collective Investment Scheme licence issued to The ARP Funds (SICAV) plc was converted from a Stand Alone Scheme to a Multi-Fund.

Trustees and Fiduciaries

- Authorisation issued to Alpha Business Limited to receive property under trusts and to act as trustee or co-trustee.
- Authorisation issued to Trident Trust Company (Malta) Limited to act as a trustee and to provide other fiduciary services (including acting as an administrator of private foundations).
- Authorisation issued to H&P Trust Company (Malta) Limited to act as a trustee and to provide other fiduciary services (including acting as an administrator of private foundations).
- Authorisation issued to Grand Harbour Trustees Limited to act as a trustee and to provide other fiduciary services (including acting as an administrator of private foundations).
- Authorisation issued to INTEGRITAS Trustees Limited to act as a trustee and to provide other fiduciary services (including acting as an administrator of private foundations).

Trustees and Fiduciaries - Extensions

- Licence issued to Ganado Trustees & Fiduciaries Limited was extended to include acting as an administrator of private foundations.
- Licence issued to STM Malta Trust and Company Management Limited was extended to include acting as an administrator of private foundations.
- Licence issued to PCL International Holdings Limited was extended to include acting as an administrator of private foundations.
- Licence issued to QUBE Holdings Limited was extended to include acting as an administrator of private foundations.
- Licence issued to Bentley Trust (Malta) Limited was extended to include acting as an administrator of private foundations.
- Licence issued to RBG Fiduciary Services Limited was extended to hold property under trust and to act as trustee or co-trustee.

PENSIONS

Retirement Schemes

- Certificate of Registration issued to The Westerby International Retirement Plan.
- Certificate of Registration issued to Momentum Malta Retirement Trust.
- Certificate of Registration issued to The Dominion Malta Retirement Plan 2010.
- Certificate of Registration issued to The Third Dominion Malta Retirement Plan.
- Certificate of Registration issued to IPF Retirement Plan.
- Certificate of Registration issued to The Calypso International Retirement Scheme.
- Certificate of Registration issued to The Dominion EU Retirement (US Qualified) Plan.

Retirement Scheme Administrators

- Certificate of Registration issued to Worldwide Pensions Limited.
- Certificate of Registration issued to Momentum Pensions Malta Limited.

SURRENDERED LICENCES

BANKING

Financial Institutions

- Voluntary surrender of licence issued to Crystal Loan Brokers Limited.

INSURANCE BUSINESS

Insurance Undertakings

- Central General Limited ceased to carry on business of insurance in Malta.
- Central Life Limited ceased to carry on business of insurance in Malta.
- American Home Assurance Company Limited ceased to carry on business of insurance in Malta.

INVESTMENT SERVICES

- Voluntary surrender of Category 1B licence issued to Delta Exotics Limited.
- Voluntary surrender of Category 2 licence issued to Fundior Investment Services Limited.
- Voluntary surrender of Category 2 licence issued to Stoneworks Asset Management (Malta) Limited.
- Voluntary surrender of Category 2 licence issued to FIMBank plc.
- Voluntary surrender of Category 2 licence issued to Sturgeon Capital Limited.
- Voluntary surrender of Category 2 licence issued to Belay Management Limited.
- Voluntary surrender of Category 2 licence issued to Re-Invest Partners Limited.
- Voluntary surrender of Category 2 licence issued to CIE Management IXM Limited.
- Voluntary surrender of Category 2 licence issued to Occam Investment Management (Malta) Limited.

COLLECTIVE INVESTMENT SCHEMES

Professional Investor Funds – Qualifying Investors

- Voluntary surrender of licence issued to Primvalue (Malta) SICAV plc in respect of one sub-fund.
- Voluntary surrender of licence issued to SwissFund SICAV plc in respect of one sub-fund.
- Cancellation of licence issued to 21st Century Investments SICAV Plc in respect of one sub-fund.
- Voluntary surrender of licences issued to Innocap Fund SICAV plc in respect of twelve sub-funds.
- Voluntary surrender of licences issued to NBCG Fund SICAV plc in respect of two sub-funds.
- Voluntary surrender of licences issued to RESCO Funds SICAV plc in respect of two sub-funds.
- Voluntary surrender of licence issued to Psi Capital SICAV plc in respect of one sub-fund.
- Voluntary surrender of licences issued to Orange Capital Fund (SICAV) plc in respect of two sub-funds.
- Voluntary surrender of licence issued to The ARP Absolute Return Funds (SICAV) plc in respect of one sub-fund.
- Voluntary surrender of licence issued to BC European Capital IX.

Professional Investor Funds – Experienced Investors

- Cancellation of licence issued to 21st Century Investments SICAV Plc in respect of one sub-fund.

Professional Investor Funds – Qualifying and Experienced Investors

- Voluntary surrender of licence issued to FMG Funds SICAV plc in respect of one sub-fund.

UCITS

- Voluntary surrender of licence issued to Celsius Global Funds (SICAV) plc in respect of one sub-fund.
- Voluntary surrender of licences issued to Llyns Investment Funds SICAV plc in respect of three sub-funds.
- Voluntary surrender of licence issued to Dominion Global Finance Fund SICAV plc in respect of one sub-fund.

Non – UCITS

- Voluntary surrender of licences issued to La Valette Funds SICAV plc in respect of one sub-fund.

TRUSTEES, FIDUCIARIES AND NOMINEES

- Voluntary surrender of authorisation issued to J.P. Morgan Trustee and Depositary Company Limited.
- Voluntary surrender of authorisation issued to Fenmed Corporate Services Limited.
- Voluntary surrender of warrant issued to Offshore & Free Zone Nominee Limited.

APPENDIX VI - MEMORANDA OF UNDERSTANDING IN FORCE

Entity	Scope of Agreement
Bilateral MoU with Foreign Regulators	
Australian Prudential Regulation Authority	Banking and Insurance
Austrian Financial Market Authority	Credit Institutions
Belgian Banking and Finance Insurance Commission	Banking
Bermuda Monetory Authority	Insurance, Credit Institutions and Trusts
Cayman Islands Monetory Authority	Credit Institutions, Insurance, Secuirities and Trusts
China Banking Regulatory Commission	Banking
China Securities Regulatory Commssion	Securities
Central Bank of Cyprus	Credit Institutions
German Federal Financial Supervisory Authority (Bafin)	Banking, Securitieis and Insurance (Primarily Banking)
Gibraltar Financial Services Commission	Banking, Securities and Insurance
Guernsery 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
Italian Securities and Exchange Commission (CONSOB)	Securities
Jersey Financial Servies Commission	Mutual Assistance and exchange of information
Mauritius Financial Services Commission	Securities, Insurance and Pensions
Central Bank of The Netherlands (DNB)	Banking
Central Bank of Portugal	Credit Institutions
Securities Market Commission of Portugal	Securities
National Bank of Slovakia	Banking
National Bank of Slovakia	Banking, Insurance and Securities
Financial Services Board of South Africa	Securities, Insuance and Pension Funds
Swiss Financial Market Supervisory Authority	Banking and Securities
Dubai Fianancial Services Authority	Securities, Credit Institutions, Insurance and Trusts
Banking Regulation and Supervision Agency of Turkey	Banking
Capital Markets Board of Turkey (Semay Piyasasi Kurulu)	Securities
UK Financial Services Authority	Banking,Insurance, Investment Services
Nebraska Department of Insurance	Insurance

Multilateral MoUs and Protocols	
EIOPA	Insurance and Occupational Pensions
ESMA	Securities
Financial Supervisory Authorities, Central Banks and Finance Ministries of the EU	Cross-Border Financial Stability
International Association of Insurance Supervisors (IAIS)	Exchange of Information in insurance regulatory and supervisory matters.
IOSCO	Securities
Bilateral MoU's with Local Authorities	
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 managemebnt of financial crisis situations
Office of Fair Competition	Mutual Assistance and exchange of information.111

APPENDIX VII – PENDING APPEALS BEFORE THE FINANCIAL SERVICES TRIBUNAL

1) Christopher J. Pace v. MFSA (Case Ref: FST 03/09)
An appeal from a penalty imposed by the MFSA for alleged insider dealing in GlobalCapital plc shares.

2) James Blake v. MFSA (Case Ref: FST 05/09)
An appeal from a penalty imposed by the MFSA for alleged insider dealing in GlobalCapital plc shares.

3) Nicholas Portelli v. MFSA (Case Ref: FST 04/09)
An appeal from a penalty imposed by the MFSA for alleged insider dealing in GlobalCapital plc shares.

4) European Insurance Group Ltd v. MFSA (Case Ref: FST 01/10)
An appeal from a decision of the MFSA to revoke the company's licence to carry on insurance business.

5) Mediterranean Investment Holdings plc v. MFSA (Case Ref: FST 02/10)
An appeal from a decision of the MFSA to impose a penalty for unauthorised changes to an approved prospectus.

6) Rizzo Farrugia & Co (Stockbrokers) Ltd. v. MFSA (Case Ref: FST 03/10)
An appeal from a decision of the MFSA to impose a penalty for breaching the duties of a sponsor and unauthorised publication of a prospectus not as approved by the Listing Authority

7) Bank of Valletta plc v MFSA (Case Ref: FST 11/11)
An appeal from a directive imposed by the MFSA on Bank of Valletta in connection with the La Vallette Multi-Manager Property Fund.

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