

MFSA contributing actively to Malta's EU Council Presidency

Malta assumes the rotating EU Council Presidency on January 1st, 2017.

As Malta's financial services regulator, the MFSA is playing an important contribution in the handling of a substantial number of financial services sector dossiers. Although the financial industry has just emerged from a protracted period of European regulatory initiatives to counter the effects of the various crises, the Presidency is keen to see further progress on a number of projects that are still to be finalised, including fundamental issues for the EU such as the Banking Union and the Capital Markets Union.



Staff at the MFSA are actively contributing to the Presidency as part of the Ministry of Finance teams. The Authority's work is particularly focussed on EU legislation that addresses the challenges faced by small and medium-sized enterprises (SMEs), such as by enabling the development of a wider range of funding sources through action on the Capital Markets Union, through the Review of the European Venture Capital Funds (EuVECA) Regulation (No 345/2013); the Review of European Social Entrepreneurship Funds (EuSEF) Regulation (No 346/2013); the Proposal for a Regulation of the European Parliament and of the Council laying down common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation and amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012; and the Prospectus legislation review which has just been successfully concluded.

In addition, the MFSA is extending its expertise and support to the following important files during 2017:

- Commission Action Plan to the Fight against Terrorism Financing [amendments to 4th Directive (EU)2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012, and repealing Directive 2005/60/EC and Directive 2006/70/EC;
- Prudential Requirements for Credit Institutions and Investment Firms – Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms;
- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme [EDIS];
- Initiative on Recovery and resolution framework for non-bank institutions (CCPs Resolution);
- Review of Regulation (EU) No 648/2012 [EMIR];
- Legislative initiative on business insolvency, including early restructuring and second chance, drawing on the experience of the 2014 Recommendation on a new approach to business failure and insolvency;

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- Green Paper on retail financial services in the Single Market;
- Consumer Support Programme (Proposal for a Regulation of the European Parliament and of the Council on establishing a Union programme to support specific activities enhancing the involvement of consumers and other financial services end-users in Union policy making in the field of financial services for the period of 2017-2020).

Further information on the priorities of the Maltese EU Presidency, which range from security to migration to consumer protection, are available on: <http://www.eu2017.mt/en/Pages/Maltese-Priorities.aspx>

2016 EIOPA Stress Test



The European Insurance and Occupational Pensions Authority (EIOPA) has published the results of the 2016 EIOPA Stress Test Exercise. The exercise was conducted by EIOPA in conjunction with the national competent authorities responsible for insurance supervision in Member States.

The 2016 Stress Test Exercise assessed the resilience of the insurance industry to two prominent prevalent risks. Two scenarios were tested in this exercise, a low-for-long yield scenario and a so-called 'double-hit' scenario.

The stress test 2016 combines a quantitative and qualitative exercise according to the following two scenarios:

- Scenario 1 – “low-for-long scenario” (LY) focused on a prolonged low interest rate environment;
- Scenario 2 – “double-hit scenario” (DH) combining a low interest rate curve and a market stress.

The 'double-hit' scenario was set-up by EIOPA in cooperation with the ESRB.

General Questions about the Stress Test

What are the objectives of the exercise?

- The main objectives of the exercise are:
- To explore overall resilience of the insurance sector to severe market developments;
- To identify its major vulnerabilities;
- To reveal areas that require further supervisory focus; and
- To examine potential systemic risks in situations of stress

How many companies participated in the exercise?

A total of 236 solo undertakings from 30 countries participated in the exercise.

Undertakings selected for participation underwrite long-term business involving investment guarantees and are thus vulnerable to a scenario with an extended period of low interest rates. In terms of technical provisions, these undertakings report 75% of their total technical provisions to be life business excluding unit-linked. Less than 2% is non-life business.

In regards to Malta, MSV Life plc and HSBC Life Assurance (Malta) Ltd participated in the EIOPA Stress Test. These undertakings constitute 93% of the total life technical provisions of direct life undertakings in Malta.

Will EIOPA disclose individual results of the companies?

EIOPA will publish the list of participating undertakings; but the results of the stress test will be disclosed in an anonymized or aggregated way. Again EIOPA's stress tests are not pass-or-fail exercises. They aim to identify the risks and vulnerabilities of the European insurance sector.

In line with the Solvency II requirements insurance undertakings will publicly disclose data related to their solvency positions. So EIOPA will not publish individual stress test results with undertakings' names.

How many firms failed the test and how big is the capital shortfall?

The EIOPA Stress Test is designed as a vulnerability analysis and does not constitute a pass or fail exercise. It does not attempt to assess capital requirements for the industry and no recalculation of SCR or MCR post stress was required. In order to provide an indication on the effect of an adverse scenario on the insurance sector, the impact on the excess of assets over liabilities is assessed.

In the double-hit scenario, 104 undertakings (more than 40% of sample) would lose more than a third of their excess of assets over liabilities. Moreover, 42 undertakings would see more than half of their excess of assets over liabilities while 5 undertakings would lose all of their excess of assets over liabilities.

In the low-for-long scenario, 38 undertakings (16% of the sample) would lose more than a third of their excess of assets over liabilities. In the absence of LTG measures, this impact would be significantly larger, a finding that confirms the importance of LTG measures for financial stability purposes.

If LTG and transitional measures were not included, 72 companies would lose all their excess of assets over liabilities in the double-hit scenario and 14 in the low-for-long scenario. Moreover, 162 undertakings (almost three quarters of the sample) would lose more than 1/3 of their excess of assets over liabilities in the double-hit scenario. In the low-for-long scenario, 59 companies (a quarter of the sample) would lose more than 1/3 of their excess of assets over liabilities.

How did the Maltese participants fare in the stress test?

As already stressed above, this stress test exercise did not constitute a pass or fail exercise. However, from the results submitted by participants, the undertakings concerned remain financially strong to withstand both low for long yields and also falls in asset values.

Questions about the "Double Hit" Scenario

What does the "Double Hit" Scenario consist of?

The scenario represents an extreme situation triggered by two events that were not observed simultaneously in the past, namely a rapid increase of all sovereign bond yields of the EU countries complemented by a drop in the risk free rate. Shocks to sovereign bonds are reflected in the double hit scenario by an increase in the corporate bond yields and a drop in values of stocks and the prices of other asset classes.

What are the key findings of the "Double Hit" Scenario?

The double-hit results in a decline of almost 610 billion euro of the total assets (-9.7% of total assets in the baseline). As liabilities only decline by 450 billion euro (-7.8% of total liabilities in the baseline), this scenario has a negative impact on the balance sheet of insurers of close to 160 billion euro (-28.9% of total excess of assets over liabilities).

The majority of the stress test participants are most severely impacted by the double hit scenario when looking at the change in excess of assets over liabilities ratios.

Questions about the Low-for-long yield Scenario

What does the Low-for-long yield Scenario consist of?

This scenario assesses the impact of a long-lasting low yield scenario with low rates for all maturities. It is based on a situation of secular stagnation. Savers facing a lack of long term investment opportunities and permanently low productivity growth - combined with a scarcity of risk free assets - drive down yields at all maturities.

To assess the inherent risks, EIOPA derived a specific interest rate curve based on the interest rate term structures observed for the Euro Area (EA) in the past 2 years.

What are the key findings of the Low-for-long yield Scenario?

In the event of the low-for-long scenario, the impact for the insurance sector would represent a fall in excess of assets over liabilities of about 100 billion euro (18% of the total excess of assets over liabilities in the baseline).

This negative impact stems from an increase in liabilities worth more than 380 billion euro (6.7% of total liabilities in the baseline). The increase in asset values (about 280 billion euro representing 4.5% of total assets in the baseline) is not sufficient to cover the negative impact in the technical provisions of the participating insurance undertakings.

Sound and resilient banking system – the IMF

In its concluding statement for the 2016 Article IV Mission, the IMF reported that Malta's economic growth has been "exceptionally strong. Sound policies and favorable external and domestic conditions have led to robust employment growth and an improvement in public finances. Looking ahead, the key policy challenge is to sustain the high growth and make it more inclusive in an increasingly uncertain external environment. Efforts should therefore focus on further enhancing the economy's resilience to shocks, and addressing the remaining structural impediments.



Focusing on financial services, the IMF noted that "the banking system appears sound and resilient". While recognising the challenges posed by the external market, such as the Brexit decision and low interest rate environment, the IMF highlighted that domestic banks report adequate capitalization and liquidity, and profitability above levels seen in peers.

The report also referred to the planned Malta Development Bank (MDB), defined as a move which could support the economy, as "the strategy for the future bank aims at increasing banks' lending to credit-constrained SMEs and providing co-financing for large development and social projects".

The IMF also notes the close coordination in the financial services sector between the involved regulatory institutions, provision of adequate resources for inspections and training, and the robust implementation of the Anti-Money Laundering/Combating the Financing of Terrorism framework in line with the 2012 Financial Action Task Force's standards, and calls for the continuation of such actions.

MFSA consults on proposed revised rulebooks applicable to Collective Investment Schemes

Earlier in 2016, the Authority announced the intention to consolidate and reduce the number of fund frameworks which are currently available to fund promoters in terms of the Investment Services Act and the applicable Investment Services Rules. This announcement was further followed by a Circular to the industry outlining the manner in which the fund frameworks will be consolidated and reduced.

The MFSA is now seeking feedback from the industry with regards to proposed amendments to the Rulebooks which are currently in force and which will remain in force in relation to those schemes which are already in possession of a collective investment scheme licence granted in terms of the Investment Services Act.

The Consultation document, which is available on [insert link] provides a summary of the proposed amendments to the different Rulebooks.

Interested parties are to send their comments in writing by not later than 27th January 2017. Any comments and feedback are to be addressed to Dr. Isabelle Agius, Senior Manager, Authorisation Unit on iagius@mfsa.com.mt

Authorisation of EWSM Listing Agents



Reference is made to EWSM Listing Rule 6.4 regulating the suitability criteria for a prospective EWSM Listing Agent. Presently the EWSM Listing Rules (the “LRs”) envisage a “recognition” process for a person to act as a Listing Agent rather than an approval process. The Listing Authority has

agreed that such LR's require amendment to provide for a regime where Listing Agents are subject to approval rather than “recognition”.

Accordingly LR 6.4 is to be amended to replace the word “recognised” with “approved”. This would serve two purposes, primarily the alignment of the EWSM Bye-laws and the LR's and, introducing a process of vetting to be carried out in relation to the proposed Listing Agent.

The approval process shall commence through the submission to the Listing Authority of an application form accompanied by personal questionnaire or a questionnaire for corporate entities, as the case may be, containing all basic information on the prospective Listing Agent. The submission of the respective questionnaire would need to be made by the directors of the applicant, any qualifying shareholders (and their directors as the case may be) and the persons who would effectively direct and manage the Listing Agent obligations/duties, where such persons are different from the directors of the applicant.

A further amendment to the LR's is the limitation of the time for which authorisation is granted to a Listing Agent. As the function of the Listing Agent is limited to assisting a prospective applicant at the application stage and since the Listing Agent is not subject to any ongoing supervision, the Listing Authority has decided to introduce a two year validity period for the approval granted to a Listing Agent. In terms of the amended LR's, towards the end of the (each) approval period the Listing Agent would be required to submit to the Listing Authority an update of the information it had submitted together with its original application, as necessary. Where no update is required a declaration to such effect should be submitted to the Listing Authority.

Listing Agents which have already been “recognised” by the Listing Authority shall be notified by the Authority that the abovementioned two year validity period shall be deemed to have commenced to run from the date of their respective recognition by the Listing Authority.

The Revised Listing Rules are available on the MFSA website at goo.gl/tzh4vm and became effective from 19th December.

Any queries or requests for clarifications in respect of the above should be submitted on email address capitalmarkets@mfsa.com.mt

MFSA Circulars

- 02/12/2016 - [Circular - Packaged Retail and Insurance-Based Investment Products \("PRIIPs"\) Regulation Quick Fix](#)
- 19/12/2016 - [Publication of an Act to amend the Prevention of Financial Markets Abuse Act](#)
- 20/12/2016 - [Circular addressed to Category 2 and Category 3 Investment Firms in relation to updates to the COREP return](#)
- 22/12/2016 - [Circular on Markets in Financial Instruments Directive \('MiFID II'\) and Markets in Financial Instruments Regulations \('MiFIR'\)](#)
- 27/12/2016 - [Statement of Decision on the Methodology for the Identification of other Systemically Important Institutions and the related capital buffer calibration](#)
- 27/12/2016 - [Circular regarding the Guide to Submitting a Complete Application for a Collective Investment Scheme Licence](#)
- 29/12/2016 - [Market Abuse Regulation – Q & A Document](#)
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MFSA Consultation Papers and Feedback Statements

- 27/12/2016 - [Consultation on the Proposed Revised Rulebooks applicable to Collective Investment Schemes](#)
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MFSA Warnings

- 20/12/2016 - [MFSA Warning - Coinspace Ltd - <http://www.coinspace.eu/>](#)

Foreign warnings received by MFSA can be viewed on [MFSA Website / Announcements / Warnings](#)

European Supervisory Authorities Announcements

European Banking Authority (EBA)

- 03/12/2016 - [EBA Annual Risk Assessment Report and 2016 EU-wide Transparency Exercise data](#)
- 14/12/2016 - [EBA makes final recommendations for strengthening loss-absorbing capacity of banks in Europe](#)
- 22/12/2016 - [EBA sees considerable improvement in the average LCR across EU banks](#)
- 22/12/2016 - [EBA to run its next EU-wide stress test in 2018](#)
- 23/12/2016 - [EBA recommends retaining risk-sensitive framework for banks regulatory capital](#)

European Securities and Markets Authority (ESMA)

- 01/12/2016 - [ESMA to provide free credit ratings information to public](#)

European Insurance and Occupational Pensions Authority (EIOPA)

- 09/12/2016 - [EIOPA Financial Stability Report - December 2016](#)
- 15/12/2016 - [EIOPA publishes 2016 Insurance Stress Test Results](#)
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MFSa Licences – November 2016

NEW LICENCES

Banking

Financial Institutions

- Financial Institution license issued to **Emerge Global Limited**.

Collective Investment Schemes

Professional Investor Funds targeting Qualifying Investors

- Collective Investment Scheme licence issued to **PMG Partners SICAV plc** in respect of one sub-fund.
- Collective Investment Scheme licence issued to **Woodman Funds SICAV plc** in respect of one sub-fund.
- Collective Investment Scheme licences issued to **Alpha Quest Funds SICAV plc** in respect of two sub-funds.

Professional Investor Funds targeting Extraordinary Investors

- Collective Investment Scheme licence issued to **Pélée Umbrella Investment Fund SICAV plc** in respect of one sub-fund.

Alternative Investment Funds targeting Professional and Qualifying Investors

- Collective Investment Scheme licence issued to **Comino III Umbrella Fund SICAV plc** in respect of one sub-fund.
- Collective Investment Scheme licence issued to **Lane Bridge SICAV plc** in respect of one sub-fund.

Incorporated Cells

- Collective Investment Scheme licence issued to **Altor Capital IC SICAV plc**.

UCITS

- Collective Investment Scheme licence issued to **AQA UCITS Funds SICAV plc** in respect of one sub-fund.
- Collective Investment Scheme licence issued to **Kite SICAV plc** in respect of one sub-fund.

Insurance

Underwriting agreement

- **FirstUnited Insurance Brokers Ltd** was granted the registration of an underwriting agreement with Mapfre Middlesea plc in nine classes of the general business in terms of article 32 of the Insurance Intermediaries Act, 2006.

Company Service Providers

- Registration certificate issued to **Res Malta Limited**.
- Registration certificate issued to **E&S Consultancy Limited**.
- Registration certificate issued to **Amagis Capital Services Limited**.
- Registration certificate issued to **EXCO Services Limited**.
- Registration certificate issued to **Chancery Services Limited**.
- Registration certificate issued to **Executive Consultants Limited**.
- Registration certificate issued to **Bosteco Overseas Specialised Services Limited**.
- Registration certificate issued to **Citco (Malta) Limited**.
- Registration certificate issued to **CMM Management Limited**.

Securitisation Vehicles

Notified Securitisation Vehicles

- Acknowledgement issued to **Vernier Securities SCC plc**.

Cells

- Acknowledgement issued to **Romanian Diversified Basket Tracker Bond Cell**.
- Acknowledgement issued to **Finsion Life Cell**.
- Acknowledgement issued to **InverEquity Cell**.

Trustees and Fiduciaries

- Authorisation issued to **Bencustodia Limited** to act as a private trust company in terms of article 43B of the Trusts and Trustees Act.

SURRENDERED LICENCES

Collective Investment Schemes

- Surrender of Category 2 licence issued to **Melidon Asset Management Limited**.

Professional Investor Funds targeting Qualifying Investors

- Surrender of licences issued to **Paragon SICAV plc** in respect of two sub-funds.
- Surrender of licences issued to **Ananea Funds SICAV plc** in respect of three sub-funds.

UCITS

- Surrender of licence issued to **Celsius Global Funds SICAV plc**.

Investment Services

- Surrender of Category 2 licence issued to **C8 Investments Limited**.

Trustees and Fiduciaries

- Surrender of licence issued to **MSS International Services Limited**.

Company Service Providers

- Voluntarily cancellation of the registration issued to **Teos Management and Advisory Services (Malta) Limited**.

EXTENDED AND REVISED LICENCES**Banking***Financial Institutions*

- Extension of licence issued to **Swish Payments Limited** to include money remittance services in terms of Article 5 of the Financial Institutions Act.

Investment Services

- Revision of license issued to **Cresco Capital Markets (Malta) Limited** to cover all the investment instruments listed in the Second Schedule of the Investment Services Act, 1994.

Insurance*Insurance Undertakings*

- Extension of approval granted to **Cell A2**, a protected cell of White Rock Insurance (Europe) PCC Limited, to carry on business of insurance in one additional class of the General Business.

Registry of Companies - New Registrations – November 2016

Companies	Partnerships
521	4

Forthcoming Events

2017

11 January - [Investment-Based Crowdfunding Discussion Workshop - ZAAR Crowdfunding Malta](#)

16 January - [Seminar organised by Bruegel/MFIN/MFSA in Conjunction with the Malta-EU Presidency 2017 - The Outlook for European Financial Centres](#)

20-22 June - [NeMa 2017 The Premier Network Management Event](#)



Training by members of the ECC:

- [Malta International Training Centre](#)
- [Malta Institute of Accountants](#)
- [Institute of Financial Services](#)
- [Institute of Legal Studies](#)
- [Institute of Financial Services Practitioners](#)
- [Malta Institute of Management](#)
- [Castille Institute](#)
- [PricewaterhouseCoopers](#)
- [Malta College of Arts, Science and Technology \(MCAST\), Institute of Business & Commerce](#)
- [The Department of Banking & Finance, Faculty of Economics, Management & Accountancy, The University of Malta](#)

*Communications to be addressed to:
The Secretary,
Educational Consultative Council,
MFSA,
Notabile Road,
Attard.*



You can keep up-to-date on our news and regulatory developments by regularly visiting our [website](#) or by subscribing to our [RSS feeds](#).



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