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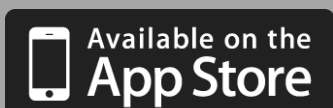
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The Economist Business Round Table - Malta: Invigorating Investment Growth

Regulatory innovations underpinning Malta's resilience – MFSA Chairman

MFSA Chairman Prof. Bannister said that Malta's economic resilience, which had surpassed even that of core EU member states, is a direct consequence of the constant regulatory innovations developed over the past years. "These created business opportunities in the European ambit, thus attracting investment". Bannister also hailed Malta' robust and respected legal system – as these unique value propositions, together with the single passport, truly distinguished the island in its field.

Prof Bannister was addressing the Economist Events' Business Roundtable, organised in conjunction with the Government of Malta, held on 6-7 March. This Conference assembled a high-level audience of policy-makers, CEOs, investors and stakeholders to discuss opportunities to invigorate investment and growth in Malta.

Bannister grouped Malta's advantages in four categories: the business environment, which includes a product-driven jurisdiction, established banking and insurance industry, sharp growth in financial intermediation services, easy access to decision makers, ability to adapt fast to changing circumstances; Malta's cost structures – including cost of human resource, expertise, quality, productivity levels, taxation; strategic factors: multi-linguistic skills, geography, culture, international perception and finally infrastructure: communications and IT, regulation, training structures, tax treaties.

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**BUSINESS ROUNDTABLE
WITH THE GOVERNMENT OF MALTA**

INVIGORATING INVESTMENT AND GROWTH



The MFSA Chairman dwelled on the opportunities that exist in the expansion of the financial services industry including the management of insurance and re-insurance companies, the management of trusts, the management of pension schemes and wholesale capital markets.

During the same conference, Finance Minister Prof. Edward Scicluna said that the encouraging economic turnaround being experienced by Malta is due to Government's clear road-map for business, its energetic and decisive approach to governance, and the Government's negotiations with the European Commission that allowed Malta to avoid an austerity programme related to the Excessive Deficit Procedure.

Prof. Scicluna attributed Malta's positive economic turnaround to three main factors. "First and foremost is this government's clear road-map for business, that we will do whatever is possible to remove any obstacles in the way of doing business, whether these are bureaucratic procedures or worse, corruption," said Prof. Scicluna.

“Secondly the surge in economic activity came about because Government takes decisions. The government just unblocked the process. Decisions are taken on a daily basis, come workday or weekend. Parliament’s agenda is full with legislation which is bringing about much-needed change. The wheel is turning with less screeching than before,” Prof. Scicluna added.

“The third reason, perhaps less known than the previous two, is that we were spared the poison chalice by the Commission way back in May of last year,” Prof. Scicluna explained. The Minister recalled that Commissioner Rhen was persuaded by the Maltese Government not to impose austerity programmes, in return of being kept informed of the Government’s spending review, and of the series of reforms in the energy field, in the labour market and in the education and training sectors.

Besides the Minister and the MFSA Chairman, the discussion panel also featured the participation of Jim O’Neill, Visiting Research Fellow, Bruegel, & Former Chairman, Goldman Sachs Asset Management, Prof. Joe Bannister, Chairman, Malta Financial Services Authority (MFSA), Kenneth Farrugia, Chairman, FinanceMalta, and Dr John C. Grech, Chairman, FIMBank.

EC In-Depth Review gives clean bill of health to financial sector

An in-depth review of different sectors within the Maltese economy found that the financial industry warranted a clean bill of health. This was a key conclusion of the European Commission’s in-depth reviews as per Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances.

In its report, the Commission concluded that the macroeconomic challenges in Malta “no longer constitute substantial macroeconomic risks and are no longer identified as imbalances. Although indebtedness remains high, risks to the sustainability of private and public sector debt and the stability of the financial sector appear contained, even if they deserve continued monitoring”.



More specifically, the analysis in the Review finds that financial stability indicators remain sound. Still, in light of the structural nature of the risks in the sector, a continuation of the current prudent supervisory and risk-taking practices is key. In its review, the Commission concluded that the financial sector does not appear to pose imminent risks to macro-financial stability. “Maltese banks generally benefit from high liquidity and solvency ratios and have remained profitable. Risk management and supervisory practices also appear prudent. The nature of the main risks is structural and as such will likely remain a characteristic of the sector in the future. So far, the authorities are managing these risks in an effective way, as evidenced by the robust performance and soundness.”

Positively, the report notes that banks have increased provisions in response to the increasing bad loans. As loans tend to be well-collateralised, the coverage of doubtful and non-performing loans by specific provisions in Malta was historically low. Overall, low loan-to value ratios (LTV) and a conservative valuation of the underlying collateral point to relatively prudent risk-management practices so far. This provisioning practice, linked also to the standard of high collateralisation, has allowed banks to remain profitable even in an environment of deteriorating asset quality.

The report also notes that authorities have taken steps to strengthen provisioning practices. In line with the recommendation made by the European Council, the financial sector supervisor MFSA, together with the Central Bank, has adopted a revision to the Banking Rule 9 – the legislation governing banks’ provisioning policies. The new BR09 has been in force since 31 December 2013. Its implementation is expected to contribute to an increase in the coverage ratio by some further 3-4 percentage points.

The Commission concluded that maintaining financial stability is of crucial importance for the channelling of savings into investment opportunities and the overall efficient functioning of the economy. The financial sector also plays an important role in financing the government deficit, which reinforces its role in ensuring macro-financial stability.

Fitch Affirms Malta at 'A' - Banking sector's performance remains resilient



Fitch Ratings has this month affirmed Malta's Long-term foreign and local currency Issuer Default Rating (IDRs) at 'A'.

The ratings agency said the affirmation and the stable outlook reflected the following key rating drivers: "The Maltese economy is on the road to recovery. In 2013 the economy grew by 2.4%, better than 2012 (0.9%) and higher than the eurozone average (negative 0.4%), Fitch expects Malta's GDP growth to continue outperforming the eurozone average in 2014-15.

At 6.5% the unemployment rate is in line with the 'A' median and well below the eurozone average, while the employment rate has risen, underpinned by the increasing female labour market participation rate.

Focusing on the financial services industry, Fitch expects the banking sector's performance to remain resilient. Moreover it assumes that "in case of need, the government of Malta would be predisposed towards supporting the core domestic banks, which are systemically important".

Malta-The culture of getting things done



Malta has featured in two leading financial publications throughout the month of March, increasing the visibility of the both the jurisdiction as a whole, as well as that of its financial regulator, the MFSA.

Malta features prominently in Captive Review's 2014 Edition of ILS Review, a world-wide publication dwelling on insurance-related security. This year's journal, featured an in-depth review of the Maltese jurisdiction claiming that "Malta has gained a reputation for a robust regime (without being unduly prescriptive) with a highly approachable regulatory authority". The ILS states that "it has been internationally recognised that the Maltese regulations provide a secure and stable framework for prudential supervision, consumer protection, market surveillance and prevention of money laundering".

Focusing on the MFSA, it notes that "the Authority has created a one-stop-shop for the development of the financial services sector and now intends to do the same for the capital markets. Besides the possibility of setting up an efficient securitisation vehicle, Malta is now offering the possibility for the listing of wholesale securities issued by the securities vehicles." The full document can be downloaded from <http://goo.gl/Ys1yP1>.

Malta has also featured in the March 2014 edition of Captive Review, through an interview with MFSA Chairman Profs Joe Bannister. Questioned on the biggest regulatory burdens for captives in Malta, Bannister argued that captives in Malta face the same burdens as any captive in any other EU member state and also in other non-EU jurisdictions that decided to introduce the equivalence requirements under Solvency II.

"Broadly speaking issues commonly raised by captives and their managers in relation to the Solvency II regime have focused on the solvency capital requirement (Pillar I) and the additional financial strain this may place on captives. Governance requirements (Pillar II) have however also been similarly flagged by captives as adding to the regulatory burden - under the Solvency II regime captives (in like manner with insurance and reinsurance companies) are being asked to demonstrate stronger governance and risk management structures.

Captives continue to discuss the proper understanding and application of the proportionality principle - which factors in the nature, scale and complexity of the operation - and underlies Solvency II requirements for captives and re/insurance companies alike."

Asked to explain how these burdens are being overcome, the MFSA Chairman explained that managers and regulators/

supervisors are working together to ensure a smooth transition to the new regime. “This is being done through the organisation of workshops for the Industry by the regulator, discussions with captive management associations and by one-to-one meetings with companies on ad hoc issues. Compliance visits are also being tailored to assess the level of preparedness of companies for Solvency II and to help identify and overcome challenges faced by captives and their managers.”

Close interaction with the regulator means that problems can be identified at an early stage and solved quickly. Captive managers are instrumental in assisting captives to prepare to adopt Solvency II standards, particularly on the governance and risk management levels - captives are encouraged to prepare for change through critical self-examination with a view to developing their internal governance in line with best practice. “Indeed, we see captives having robust governance frameworks already in place and on a going forward basis working to fully align them with Solvency II requirements to ensure that these can be objectively verified as functioning”, concluded Bannister.

Source: Capture ILS Report 2014 - Full article is available on <http://goo.gl/KHXRzT>.

MFSA – FIAU sign Memorandum of Understanding

The Malta Financial Services Authority has signed a Memorandum of Understanding with the Financial Intelligence Analysis Unit (FIAU) that will facilitate on-site inspections relating to the prevention of money laundering and funding of terrorism. Both such parties share a common goal of ensuring that Malta’s financial services sector is properly supervised for such purposes, thus ensuring that all the necessary safeguards are in place.

The basis for cooperation between the MFSA and the FIAU in the prevention of money laundering and funding of terrorism is their common supervisory function in respect of persons and entities providing financial services which are required to be licensed, authorised, enrolled, recognised or registered by the MFSA. The Prevention of Money Laundering Act provides for cooperation between the FIAU and supervisory authorities, such as the MFSA, in the supervision of anti-money laundering and the combating of the financing of terrorism. The primary purpose of this MoU is to further enhance cooperation between the parties, including the rendering of assistance to each other and the exchange of information.

The FIAU is a government agency set up by the Prevention of Money Laundering Act, and is responsible for the collection, collation, processing, analysis and dissemination of information with a view to combating money laundering and the financing of terrorism. The Unit is also responsible for monitoring compliance with the relevant legislative provisions.

This MoU was signed by Professor Joe V. Bannister, Chairman of the MFSA, on behalf of the Authority, and by Dr Peter Grech, Chairman of the FIAU, on behalf of the FIAU.

ESMA warns on sale of complex financial products

The European Securities and Markets Authority (ESMA) announced the issue of an Opinion entitled “MiFID practices for firms selling complex financial products” [ESMA/2014/146] dealing with the importance of adherence by firms with the requirements governing selling practices of complex investment products as regulated by the Markets in Financial Instruments Directive (MiFID)¹ and MiFID Implementing Directive².



ESMA’s Opinion centres on the fact that various asset classes, market segments and investment strategies which traditionally were solely available to the professional investor, have, through complex investment products, been made readily available to

¹ Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC

² Commission Directive 2006/73/EC of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

the retail consumer. Furthermore, firms' compliance with the MiFID selling practices in relation to these products has not kept to the expected standards.

Although the term 'complex product' might prove to be a relative one across the spectrum of investors, ESMA has proceeded in its Opinion, with a classification of the instances when products should generally be considered as being 'complex' namely when:

- i. they are derivatives or embed a derivative; and/or
- ii. they are made up of one or more underlying financial instrument/s that are difficult to value, or are combined in such a way so as to make it difficult to assess the risks involved and the likely performance scenarios; and/or
- iii. they use more opaque indices that are for example set up by the product manufacturer, rather than using standard market indices; and/or
- iv. they have a fixed investment term of a number of years with barriers to exit (which are not clearly explained) – whether that is due to the lack of a secondary market, or significant penalties or losses on early exit; and/or
- v. they have returns/pay-off structures involving multiple variables or complex mathematical formulas; and/or
- vi. they include capital protection that may be conditional or partial, or that can be withdrawn on the concurrence of certain events.

ESMA also listed specific products which by way of example should be considered as complex products, namely: contracts for difference (CFDs); binary options; turbos; exchangeable, callable, puttable, convertible, perpetual, and/or subordinated bonds; warrants; derivatives relating to underlying securities, currencies, interest rates, yields, or commodities; credit linked notes and asset-based securities.

ESMA warns that "the more complex a product, the harder it is to demonstrate that retail clients have sufficient financial knowledge and experience to understand the key features, benefits and risks involved in an investment."

ESMA's Opinion further tackles the following aspects:

- Organisation/ internal control: ESMA further advises that firms should have in place adequate internal controls for products and service development when providing both retail and professional clients with investment services in complex products to avoid any detrimental practices towards the client;
- Suitability: In this regard, ESMA points out that before a firm decides to advise clients on complex products, it first should apply a high level of due diligence to evaluate such products. ESMA also refers investment firms to the Guidelines published in 2012 on "Certain Aspects of the Suitability Requirements" with regards to 'complex or risky products'. In this regard, firms should enquire into, inter alia:
 - i. the prospective client's risk appetite and investment objectives;
 - ii. the prospective client's perceived time-frame for the investment (particularly when dealing with an illiquid product);
 - iii. the prospective client's ability to fulfil foreseeable future commitments should he incur losses equal to or exceeding his capital through the investment;

- iv. the potential client's awareness of the fees and costs involved;
- v. the potential client's knowledge and experience in transacting similar complex products in accordance with Article 37 of the MiFID Implementing Directive. Such an assessment should not be conducted by means of a simple self-assessment exercise by the client himself. Moreover, should a client not provide the required information or the firm is of the opinion that, based on the information submitted, the product is not appropriate for the consumer in question, the firm must inform the client accordingly. Should the investment firm proceed to give access to the consumer in question to the product notwithstanding, it should clearly specify that the client is unlikely to appreciate the risks involved in dealing in these complex products.
- Appropriateness: In this regard, ESMA maintains that when assessing appropriateness, firms should consider all elements and features that determine the complexity of a product and the risks involved and should assess the knowledge and experience of the client in the context. Thus firms that choose to implement a standardised process to assess appropriateness must not use it simply as a self-certifying process but must ensure that the client has understood the risks of the product.
- Disclosure (including marketing communications): With regards to disclosure, ESMA advises that when communicating the key features and risks of complex products, particular attention should be given to ensuring that the communication is fair, clear and not misleading. Reference is also made to MiFID which provides that the disclosure of key features and risks involved in such complex products should be given fairly and clearly and should not be misleading in any way. This means that potential benefits and returns should be explained as simply as possible whilst avoiding jargon. In particular, it should disclose the total costs and charges involved including exit charges as well as the application (or otherwise) of any national investor compensation scheme should the provider default.
- Ongoing monitoring: ESMA's Opinion further recommends that the firms' compliance functions should take a risk-based approach to determining the focus of the monitoring and advisory activities of the sales function. ESMA's position with regards to on-going monitoring by firms is that "the more complex the product, the more scrutiny the firm's compliance function should apply."
- Execution of client orders: In this regard, ESMA maintains that in accordance with MiFID firms should establish an order execution policy to allow them to obtain the best possible results for their clients taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the order.

ESMA's Opinion is also accompanied by an [Information Note entitled "Risks of investing in complex products"](#) aimed at providing investors with information concerning complex products. Both documents can be accessed from the ESMA Website. Moreover, the public is urged to access the Authority's sister website, <http://www.mymoneybox.mfsa.com.mt/> for further information on the subject.

Industry Updates

CSDR

On the 26th February 2014, the European Council reached an agreement with the European Parliament on a set of new rules aimed at improving safety in the securities settlement system and at opening the market for Central Securities Depositories ('CSD').

The CSD Regulation harmonises settlement periods and settlement discipline regimes across the EU and introduces a common set of rules which address the risks arising from CSD operations and services. The uniform requirements introduced by the CSD Regulation will help remove existing barriers of access to markets and provides for an EU-wide "passport" for CSDs. The CSD Regulation needs to be in place for the European Central Bank's Target2-Securities ('T2S') initiative to begin operating as planned in 2015.

A copy of the latest version of the compromise text of the CSD Regulation can be downloaded by clicking on the following link: [6828/14](#).

For any queries on the CSD Regulation, please do not hesitate to contact: Mr Edward Grech, Analyst, Securities and Markets Supervision Unit (egrech@mfsa.com.mt), or Mr Nathan Fenech, Analyst, Securities and Markets Supervision Unit (nfenech@mfsa.com.mt).

Category 2 and Category 3 Investment Services Licence Holders (MiFID Firms)

The MFSA has gone through the process of automating the COREP Return to facilitate reporting requirements for its Investment Services Licence Holders. The Automated COREP return's file size has grown considerably when compared to the previous financial return. This is mainly due to the increased automation and number of templates issued by the European Banking Authority (EBA).

As a result, the MFSA has decided to make use of a custom built database "Financial Reporting Engine & Database - (FRE/D)" in order to receive the Automated COREP Return electronically. This system will replace the "email by attachment" approach currently being used, between the Licence Holder and the Authority.

COREP Returns should be submitted by their due date in electronic format by use of the FRE/D Interface, accessed through the following link: <http://fredis.mfsa.com.mt/>. Licence Holders have already been provided with a username and password to log into the FRE/D system. The FRE/D Financial Institution Representative Instructions are available on the MFSA website.

In the case of an Interim/Annual COREP Return, a true copy of the signed Representations Sheet should be submitted to the MFSA via the FRE/D Interface, within forty-two days of the date up to which it has been prepared (as seen in the diagram below). It must be signed by the proprietor where the Licence Holder is a sole trader, or otherwise by at least two directors or partners or any other persons authorised to sign by way of a Board Resolution. In the latter case, the Licence Holder is expected to provide a certified true copy of such Board Resolution to the MFSA.

The screenshot displays the MFSA FRE/D interface. At the top, the MFSA logo and name are visible. A red-bordered box on the right contains a note: "For Interim COREP Returns, Licence Holders are requested to print and submit the Representations sheet. This must be signed in the space provided. A signed true copy of the original Representations sheet must be sent to the MFSA via the FRE/D Interface. Press the icon to print the sheet." Below this, the interface is divided into two main sections. Section 1 - STANDARD TEMPLATES includes links for INPUT SHEET, INCOME STATEMENT, BALANCE SHEET STATEMENT, VALIDATION CHECK, FINANCIAL DETAILS, REPRESENTATIONS, and a button for CENTRAL BANK BOP RETURN. Section 2 - COREP TEMPLATES includes links for CAPITAL ADEQUACY (CA1 - OWN FUNDS, CA2 - OWN FUNDS REQUIREMENT, CA3 - CAPITAL RATIOS), CA4 - MEMORANDUM ITEMS (CA5.1 - TRANSITIONAL PROVISIONS, CA5.2 - GRANDFATHERED INSTRUMENTS), and GROUP SOLVENCY (GS - GROUP SOLVENCY).

In the case of an Audited Annual COREP Return, a hard copy of the templates found in Sections 1 and 2 of the Index Sheet must be submitted to the MFSA without undue delay and by not later than four months of the Accounting Reference Date (as seen

in the diagram below). The Representations sheet must be signed by the proprietor where the Licence Holder is a sole trader, or otherwise by at least two directors or partners or any other persons authorised to sign by way of a Board Resolution. In the latter case, the Licence Holder is expected to provide a certified true copy of such Board Resolution to the MFSA. The Representations sheet shall also be signed by the auditor.

The MFSA invites comments or feedback by Licence Holders and their Auditors on the proposed change by not later than 4th April 2014.

Any queries in relation to the implementation of COREP to investment firms should be sent directly to Mr Andrew Said, Analyst, Securities and Markets Supervision Unit Tel: 2548 5457 or by email on asaid@mfsa.com.mt.

Category 2 and Category 3 Investment Services Licence Holders (MiFID Firms)

The MFSA has recently held three training sessions regarding the Fourth Capital Requirement Directive and Regulation, (CRD IV package). The sessions targeted auditors, Category 2 (excluding fund managers) and Category 3 Investment Service providers who are impacted by CRD IV. The training sessions were well attended by the industry. The purpose of this note is to provide readers with the main points that were presented to the industry.

Mr. Christopher P. Buttigieg explained the background to CRD IV which has its origins in the banking crisis of 2008. The CRD IV applies to banks and investment firms. He explained that given the size, nature, scale and complexity of the activities of Maltese investment firms, during negotiations Malta's position was that the principle of proportionality should be applied throughout the CRD IV proposal. Malta also made the point that in due course the Commission should consider proposing the adoption of a specific framework for investment firms that stipulates prudential capital requirements applicable solely to these type of firms and which caters for the specific risks of this sector of the financial industry.

The final text of the CRD IV package was issued in June 2013 with an effective implementation date of January 2014, allowing just six months for transposition and implementation. Mr. Buttigieg indicated that CRD IV is extremely detailed, complex and lengthy and introduces new onerous obligations for investment firms. There is a possibility for some change depending on the outcome of the Commission's review of the appropriateness of CRD IV to investment firms, which it must complete by December 2015. Therefore feedback from stakeholders will play an important role in influencing the Commission's final approach vis-à-vis investment firms.

Ms. Monica Nally Hennessy provided the audience with a comprehensive presentation on the transposition of the CRD in Malta. Her focus was on the amendments which were implemented to bring the Investment Services Act in line with CRD and the introduction of three new legal notices namely,

- i. the Investment Services Act (Supervisory Review) Regulations 2014;
- ii. the Banking Act / Investment Services Act (Supervisory Consolidation) Regulations 2014; and

iii. the Investment Services Act (Administrative Penalties, Measure and Investigatory Powers) Regulations 2014.

Under the Supervisory Review Regulations the Authority is designated as the competent authority in Malta for the implementation of CRD IV. The Authority will be obliged to carry out a supervisory review and evaluation of how Licence Holders comply with CRD IV. Such a review will focus on ensuring that firms have capital resources and controls in place for the proper mitigation of risks. The frequency and intensity of the review shall have regard to the size, systemic importance, scale and complexity of the activities of the investment firm concerned. If a firm is identified as problematic there is provision for enhanced supervision under the Supervisory Examination Programme.

The Supervisory Consolidation Regulations set out the situations of when a firm may be considered to be part of a Consolidated Group and therefore be subject to supervision on a consolidated basis. Licence Holders will need to review their corporate legal structures to assess if they now come within the terms of Regulation 3 of these Regulations. The Regulations also provide for the Authority to act as consolidating supervisor of the group as a whole in certain circumstances.

Ms Hennessy introduced the Administrative Penalties, the Measures and Investigatory Powers Regulations which contain penalties the higher limits of which are far in excess of those in the ISA, and which apply in respect of breaches of CRD IV. She indicated that the new powers/measures and penalties would be applied by the Authority on a common sense/proportionate basis and that the emphasis of the Authority would be on ensuring satisfactory compliance through on-site and off-site supervision rather than on sanctions.

Ms. Mellyora Grech gave a detailed presentation on the amendments made to the Investment Services Rules for Investment Service Providers. She explained that Part BI has been restructured to make it clearer for Licence Holders to find the provisions that are applicable to them. Section 1 to Part BI has been amended to remove the provisions which do not apply to Category 1 Licence Holders, and has been extended to include the additional SLCs which shall apply to Category 2 and 3 Licence as a result of CRD. Appendices 1-6 incl. and 10 have been amended substantially.

The main changes include:

- i. Changes with respect to the role and composition of the Management Body (Board of Directors). The overarching principal is that the number of directorships which may be held by a member of the Management Body at the same time shall take into account the nature, scale and complexity of the Licence Holder.
- ii. For firms which are considered significant (the Authority is to provide guidance on this in the near future) there is a specific limit for such Board Members ie: one executive directorship and two non-executive directorships or four non-executive directorships, from July 2014. Significant firms are required to have a Remuneration Committee, Risk Committee and a Nominations Committee (comprised of non-executive members of the Management Body).
- iii. The provisions on RMICAAP and Remuneration policies in Appendix 10 have been updated. Firms are required to take into account the EBA Regulatory technical standards on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile. New limits on the ratios between the fixed and variable component on remuneration now apply, which are 1:1 or 1:2 (in limited circumstance).
- iv. Firms must now establish appropriate procedures for employees to report breaches internally and need to consider the preparation of a recovery plan for situations where they experience a significant financial deterioration.
- v. Reporting requirements and the introduction of the Automated Annual COREP return (ACR). This will be due 42 days after the Accounting Reference Date and the audited version without undue delay and by not later than four months of the Accounting Reference Date. The reporting deadlines, frequency and templates are set out in implementing technical standards. Reporting frequency of Category 3 is now changed to quarterly instead of monthly returns.
- vi. New definitions of Own Funds, Initial Capital and Fixed Overheads Requirements. Own funds now comprise Tier 1 Capital

(Common Equity Tier 1 Capital and Additional Tier 1 Capital) and Tier 2 Capital (which shall be amortised during the final five years of maturity of the instruments). Tier 3 Capital has been eliminated. Initial Capital should be made up of Common Equity Tier 1 items and other accumulated comprehensive income. The Fixed Overheads Requirement must be calculated on the basis of "Eligible Capital" which means the sum of Tier 1 Capital and Tier 2 Capital that is equal to or less than one third of Tier 1 Capital. Own Funds may not fall below the initial capital of the Licence Holder;

The effect of these changes does not increase the current Capital Resources Requirement but improves the quality of the capital. A total capital ratio of 8% of the total risk exposure amount still applies.

Ms. Stephanie Buhagiar Camilleri addressed Consolidated Groups and the main changes that have resulted following CRD IV and CRR. The definition has widened in scope. In terms of the new Appendix 3 the parent company no longer necessarily needs to be established in Malta to fall within the definition of Consolidated Group. Licence Holders need to reassess their position in terms of the revised definitions as additional requirements apply, should a Licence Holder fall part of a Consolidated Group. Such additional requirements include [i] Consolidated COREP returns [ii] additional regulatory disclosures which strictly apply for Consolidated Groups such as the 'Country-by-country' reporting and [iii] the extent of involvement that is expected by the Licence Holder's auditors at Group level. In this respect, Licence Holders are advised to refer to Appendix 3 to Part BI of the Investment Services Rules for Investment Services Providers, to understand the scope of Consolidated Groups as well as the scenarios where Licence Holders would be categorized as belonging to a Consolidated Group.

Mr Andrew Said provided the Industry with a detailed overview of the new Automated COREP Return which includes the harmonised reporting templates issued by the European Banking Authority (EBA) for CRD reporting. The introduction of COREP will significantly increase the level of information provided to the MFSA, as reporting will now offer a more holistic view of the risks being taken. Licence Holders will now need to show how they arrived at certain numbers and not just produce them. The reporting framework consists of the following set of templates, namely: Capital Adequacy, Group Solvency for Consolidated Groups, Credit Risk, Operational Risk, Market Risk, Large Exposures and Leverage.

Mr Said also gave a thorough description by use of practical examples, of the automation achieved within the excel file. Approximately 80% of the information required for regulatory reporting is gathered from the modified Cover Sheet, Index Sheet and Input Sheet. Other new additional input sheets were also incorporated within the Return. These include the newly incorporated Operational Risk calculation, the modified Foreign Exchange Risk calculation and the Fixed Overhead Calculation. A separate excel file was also introduced to licence holders who require to report numerous market risk exposures. The Automated COREP Return has grown in size, when compared to the previous IFR due to new EBA Validations, amortisation of Subordinated Loan Capital workings, percentages due to grandfathering of instruments, new set of Central Bank BOP Returns, New FRE/D mappings, Credit Risk workings and Market Risk workings. The Industry was also provided with a detailed view of the new FRE/D database used for electronic submission purposes.

All the seminar presentations are available on the MFSA web-site: <http://www.mfsa.com.mt/pages/viewcontent.aspx?id=287>.

Any queries or requests for clarifications are to be addressed to Ms Mellyora Grech, Analyst, Securities and Markets Supervision Unit Tel: 2548 5193 or by e-mail on mgrech@mfsa.com.mt, Ms Monica Nally Hennessy, Analyst, Securities and Markets Supervision Unit Tel: 2548 5233 or by e-mail on mnallyhennessy@mfsa.com.mt, or Ms Stephanie Buhagiar Camilleri, Analyst, Securities and Markets Supervision Unit Tel: 2548 5438 or by e-mail on scamilleri@mfsa.com.mt.

Any queries in relation to the implementation of COREP to investment firms should be sent directly to Mr Andrew Said, Analyst, Securities and Markets Supervision Unit Tel: 2548 5457 or by email on asaid@mfsa.com.mt.

Publication of RSPV Brochure

The Authority has issued an explanatory Guide to Reinsurance Special Purpose Vehicles established in Malta, as regulated under the Reinsurance Special Purpose Vehicles Regulations (L.N. 452 of 2013), drawn up in conformity with the current EU Framework. This Guide provides a general description of the nature of insurance risk securitisation, as a unique segment of securitisation, and also an overview of the regulatory requirements applicable to RSPVs.

RSPVs established under the new Regulations may issue insurance-linked securities (“ILS”) in order to fund their exposure under the risk transfer contract to professional clients as defined in Annex II of the European Markets in Financial Instruments Directive (“MiFID”). RSPVs provide additional opportunities to insurers and reinsurers to obtain access to capital resources. For investors ILS may provide opportunities to invest in asset class that are uncorrelated with that of the general financial market. Securitisation vehicles also have the option to list their securities on the European Wholesale Securities Market (the “EWSM”), a European regulated market based in Malta.

Any queries or requests for clarifications in respect of the above should be addressed to Dr. Emaliese Lofaro – Analyst, Regulatory Development Unit (elofaro@mfsa.com.mt).

European Supervisory Authorities Press Releases issued during March 2014

European Central Bank



11/03/2014 - [ECB publishes manual for asset quality review](#)

07/03/2014 - [ECB Press Release – Supervisory Board Members appointed](#)

European Securities and Markets Authority (ESMA)



21/03/2014 - [ESMA - Draft Technical Standards for the Regulation on improving securities settlement in the European Union and on central securities depositories \(CSD\)](#)

21/03/2014 - [ESMA - Draft Regulatory Technical Standards on major shareholdings and indicative list of financial instruments subject to notification requirements under the revised Transparency Directive](#)

12/03/2014 - [ESMA Press release – ESMA sees improved securities market conditions, although risks remain elevated](#)

European Banking Authority (EBA)



21/03/2014 - [European Supervisory Authorities \(EBA, ESMA and EIOPA\) Joint Consultation on the Guidelines on the convergence of supervisory practices relating to the consistency of supervisory coordination arrangements for financial conglomerates](#)

MFSA Licences - February 2014

LICENCES ISSUED

Banking

Financial Institutions

- Financial Institution licence issued to **Mistral Pay Ltd.**

Collective Investment Schemes

Professional Investor Funds targeting Qualifying Investors

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

Incorporated Cells

- Collective Investment Scheme licence issued to **Meliora Absolute Return Fund IC SICAV plc.**

UCITS

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

Investment Services

- Category 2 licence issued to **Temporis Investment Management Limited.**

Trustees and Fiduciaries

- Authorisation issued to **Alter Domus Trustee Services (Malta) Limited** to act as a trustee and to provide other fiduciary services (including the administration of private foundations).

Pensions

Asset Managers

- Certificate of Registration issued to **Brooks Macdonald Asset Management (International) Limited.**
- Certificate of Registration issued to **Schroders (C.I.) Ltd.**
- Certificate of Registration issued to **Calamatta Cuschieri Investment Management Ltd.**

SURRENDERED LICENCES

Collective Investment Schemes

Professional Investor Funds targeting Qualifying Investors

- Surrender of licence issued to **Valletta Global Multi Strategy SICAV plc** in respect of one sub-fund.

UCITS

- Surrender of licences issued to **Celsius Global Funds SICAV Plc** in respect of 11 sub-funds.

Investment Services

- Surrender of licence issued to **Upperview Financial Advisors Limited**.

Nominees

- Surrender of licence issued to **MSS Offshore Services (Nominee) Limited**.

EXTENDED AND REVISED LICENSES**Banking***Credit Institutions*

- Extension of licence issued to **Pilatus Bank Limited** to carry out Activity 5 - Trading for own account as listed in the Schedule to the Act.

Securities*Collective Investment Schemes*

- Licence issued to **Hedge Invest Alternative Funds SICAV plc - HI Portfolio Feeder Fund** was revised from Professional Investor Fund targeting Qualifying Investors to a Professional Investor Fund targeting Experienced Investors.

Investment Services

- Extension of licence issued to **NBG Bank Malta Limited** to provide nominee services to Retail Clients, Professional Clients (including collective investment schemes) and Eligible Counterparties.

Trustees and Fiduciaries

- Extension of licence issued to **WDM International Ltd** to act as a Trustee and as an Administrator of Private Foundations.

Registry of Companies - New Registrations - February 2014

Companies	Partnerships	Total
365	3	368

MFSA Announcements



MFSA Consultation

Feedback Document

21/03/2014 - [Feedback Statement further to Industry Responses to the MFSA Consultation on the Proposed Regulatory Regime for Company Service Providers](#)

Consultation Document

03/03/2014 - [Consultation on Insurance Intermediaries Rule 25 of 2014](#)



MFSA Circulars

28/03/2014 - [Circular to credit institutions on the Draft Implementing Technical Standards \(ITS\) with regards to supervisory reporting, excluding reporting on Asset Encumbrance and Financial Information \(FINREP\)](#)

26/03/2014 - [Circular to the financial services industry on the reporting requirements applicable to Alternative Investment Fund Managers \('AIFMs'\)](#)

25/03/2014 - [Seminar on the Fourth Capital Requirements Directive \(CRD IV\)](#)

24/03/2014 - [Circular addressed to Category 2 and 3 Investment Services Licence Holders subject to fill in the Automated COREP Return](#)

24/03/2014 - [Circular to the financial services industry on changes to the Investment Services Rules](#)

12/03/2014 - [Circular to the Financial Services Industry on the Publication of Revised MFSA Rule 1 of 2012 on Foreign Currency Lending](#)

12/03/2014 - [Circular to the financial services industry on the Alternative Investment Fund Managers Directive \('AIFMD'\)](#)

04/03/2014 - [Circular addressed to the investment services industry regarding ESMA opinion on MiFID practices for firms selling complex products](#)



MFSA Media Releases

26/03/2014 - [Memorandum of Understanding with the Financial Intelligence Analysis Unit \(FIAU\)](#)

07/03/2014 - [Update to investors who hold investments in ARM Asset Backed Securities S.A.](#)



Warnings

17/03/2014 - [Warning against ABFX Ltd or ABFX Inc. – http://www.alphabetafx.com/](http://www.alphabetafx.com/)

07/03/2014 - [Warning against Merex Markets – http://www.merexmarkets.com/merex/](http://www.merexmarkets.com/merex/)

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



MFSa Listing Authority Announcements

10/01/2014 - [Extension of period of Suspension of public offer - A25 Gold Producers Corp](#)

24/01/2014 - [Extension of period of Suspension of public offer - A25 Gold Producers Corp](#)



Forthcoming Events

10/04/2014 - [Commercial Risk Europe Seminar \(in association with IFSP\)](#)

SETTING UP A REINSURANCE
SPV & LISTING OF INSURANCE-
LINKED SECURITIES IN MALTA

IN ASSOCIATION WITH
IFSP
International Financial Services Panel

LONDON
10 Apr, '14

15/05/2014 - [FinanceMalta Seventh Annual Conference](#)

12-13/06/2014 - [Malta International Risk & Insurance Congress 2014](#)

MALTA 12-13 JUNE 2014
INTERNATIONAL
RISK & INSURANCE CONGRESS 2014

IN ASSOCIATION WITH
MFSa
MALTA FINANCIAL SERVICES AUTHORITY

12/06/2014 - [Insurance Europe Conference 2014](#)

6th International Conference

The challenge of change: global insurance trends

12 June 2014, St Julian's, Malta

#InsConf14



Education Consultative Council (ECC)

Training by members of the ECC:

- [Malta International Training Centre](#)
- [Malta Institute of Accountants](#)
- [Institute of Financial Services](#)



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