

## The Contribution of the Financial Services Sector to the Maltese Economy



A recent study published by the MFSA presents an analysis of the economic contribution of the financial services sector. This document is available on the MFSA website, on: <https://goo.gl/ycUfgM>. The study places a special emphasis on the direct, indirect and induced effects generated by the sector both at an aggregate as well as at a sub-sectoral level. The analysis presented was undertaken on the basis of selected Input-Output methods using a SIOT for the Maltese Economy for the reference year of 2010 published in May 2016.

The picture that emerges is that of a sector (NACE Sector K) largely dominated by the activity of banks, investment funds and special purpose entities (NACE K64). In recent years, however, auxiliary services (NACE K66) and pension and insurance activities (NACE K65) appear to be outpacing the dominant activities in terms of growth.

The report also presents a review of the input and output structure of the sector. On the input side, the sector is highly dependent on imports, particularly from firms operating in the same sector.

In spite of the high import content, the analysis shows also the sector as a major purchaser of domestic inputs for some sectors, accounting for example for 12.3% and 7.4% of the total domestic sales of security and office administration and legal and professional services respectively. Figure 1 illustrates the top fifteen sectors from which sector K purchases the largest proportion of its domestic intermediary inputs. The left hand axis illustrates the proportionate use of each domestic input purchase in relation to sector K's total domestic purchases, whilst the right hand axis illustrates the respective share of each sector's total intermediary output sales that are purchased by sector K.

Legal and accounting activities; activities of head offices; management consultancy activities sectors (NACE M69-M70), is the second highest ranked sector from which the financial services sector purchases inputs. At €195 million, it represents 4.2% of the total input purchases of sector K or 7.4% of the total domestic sales of the M69-M70 activities. Out of this total amount however, only around €5 million worth of services or 0.1% of total inputs, was purchased from domestic firms within M69-M70, whilst the remaining €189.9 million (4.2% of total inputs) was imported. This points to the potential for further growth from attracting more of the provision of such inputs to Malta.

Turning to output, foreign demand is found to be a main driver as most of the sector's output is exported, with less than one fifth being purchased locally. Despite only a small proportion being purchased by domestic firms, output from the sector is still found to be a key input for certain sectors locally.

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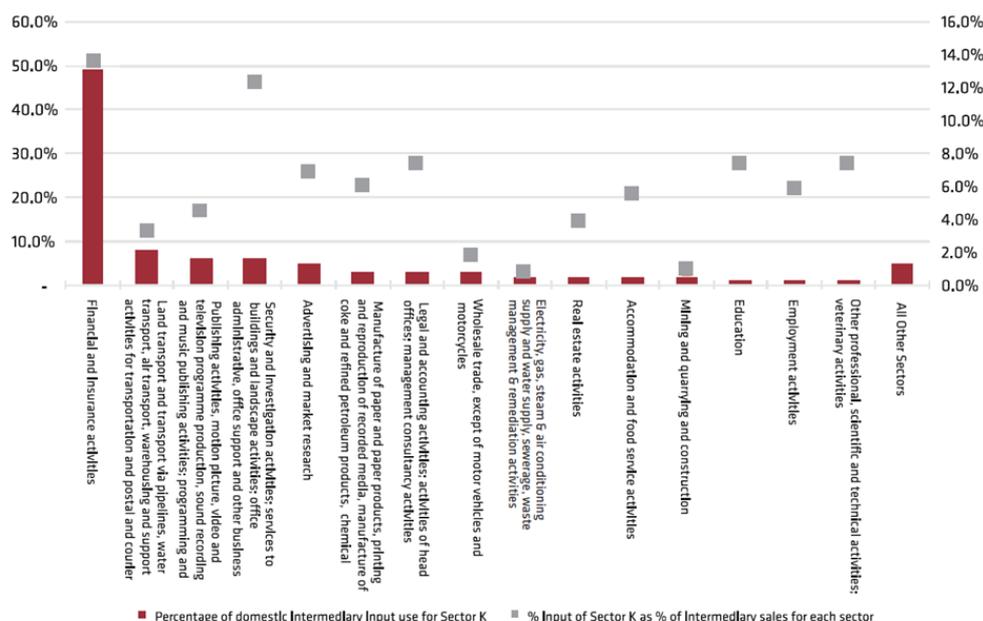


Figure 1 Sectoral Distribution of Domestic Purchases by Sector K

To allow for a more comprehensive estimate of the impact of the sector, simple and total multipliers were calculated using the Leontief inverse matrix. These multipliers portray how an increase in final demand could potentially impact the economy, through direct, indirect and induced effects.

At a sub-sector level, findings suggest that the total effect of an increase in final demand appears to be greater for the insurance, pension funding activities and auxiliary financial services. For example, as shown in figure 2, the Total value added multiplier of the insurance sector (K65) is about 6 times that of sub-sector K64 which includes core banking activities, whilst in terms of employment and income, auxiliary financial services (K66) exhibit multipliers just about 4 times higher. This is true not only in terms of gross value added but also for employment and income, which in turn, has interesting implications for policy.

At an aggregate level, the total multipliers obtained for the financial services sector are relatively lower in comparison with other dominant sectors in the economy. This is largely attributed to the high import content within the sector, which is affected by the activities of Special Purpose Entities (SPEs).

Furthermore, the calculation of total accounting multipliers, which implicitly also capture the size of the sector, put the total contribution of the sector amongst the highest in the Maltese economy. In fact, the sector as a whole has been estimated to account for a very significant 11.6% of total GVA and 10.2% of employment.

	Total Multipliers				Total Accounting Multipliers <sup>1</sup>		
	Output	Value Added	Employment	Income	Value Added	Employment	Income
Sector K	1.17	0.15	3.44	0.07	11.6%	10.2%	11.4%
K64	1.13	0.12	2.77	0.06	8.8%	7.8%	9.0%
K65	1.50	0.70	9.67	0.23	1.3%	0.7%	0.9%
K66	1.65	0.53	13.05	0.25	1.2%	1.1%	1.1%

<sup>1</sup>Percentage of total

Figure 2 Intra Sector Comparison of Total Multipliers



## MFSa holds MiFID II / MiFIR Workshop

In view of the imminent coming into force of MiFID II/MiFIR, the MFSa held a workshop session tackling the latest developments and key themes arising from their implementation. This event was being designed to raise awareness on the new regulatory obligations linked to MiFID II / MiFIR and covered relevant issues, such as the business impact of MiFID II.



Photo - MFSa - Geoffrey Buhagiar LMIPP LSWPP

*Mr. Carlo Comporti addressing the workshop*

The revised Markets in Financial Instruments Directive (MiFID II) and the new accompanying Markets in Financial Instruments Regulation (MiFIR) together present a regime which seeks to regulate the activities of investment firms which provide services associated with financial instruments, and trading venues where such instruments are traded. The new framework re-examines the original framework, known as MiFID I, which was first introduced in 2007. The revised regime introduces more challenging requirements that seek to increase investor protection and boost transparency.

MiFID II/MiFIR come into effect on 3rd January 2018, which means that investment firms and trading venues need to start preparing for changes that need to be implemented according to their business model, since the framework, being extensive, may affect a firm's functions such as trading, transaction reporting, IT and/or organisational requirements. In light of this, some of the major changes that firms need to be aware of relate to (i) an extended scope of financial instruments captured as compared with the original framework, (ii) more demanding transaction reporting rules, (iii) tighter rules on algorithmic trading and high-frequency-trading, (iv) a new trading venue – the organised trading facility ('OTF'), (v) improved best execution, and (vii) governing third-country access.

The main sessions were delivered by Carlo Comporti and Anne Hyvernaud, from Promontory, both leading experts in this field, as well as by Marianne Scicluna and Christopher Buttigieg, respectively Director-General and Director, Securities and Markets Supervision, MFSa.



Photo - MFSa - Geoffrey Buhagiar LMIPP LSWPP

*MFSa Director General Marianne Scicluna addressing the workshop*

## **MFSA Consults on Investments in Virtual Currencies**

In line with the Government's policy to develop the digital economy, the Malta Financial Services Authority ("MFSA") is considering the manner in which further rules may be introduced to ensure investor protection and market integrity in the context of investments in virtual currencies. In this context, the MFSA has launched a consultation document publishing a framework for such regulation and is inviting relevant stakeholders to provide comments and feedback in this process. The consultation document can be downloaded [here](#).

The MFSA is developing a rulebook to regulate Professional Investor Funds ("PIFs") which have the investment in virtual currencies as their investment objective. The MFSA is presently considering whether Alternative Investment Funds and Notified Alternative Investment Funds should also be allowed to invest in virtual currencies.

In view of the risk associated with the investment model of collective investment schemes investing in virtual currencies, it has been decided that, for the time being, the legal structures for PIFs making such investments should be limited to SICAV and INVCO structures, which are required to have a board of directors responsible for the overall conduct of business of the collective investment scheme.

The rulebook published for consultation builds on the existing rules applicable to PIFs and adds further rules, which specifically aim to mitigate the potential risks of investing in virtual currencies. The main proposals introduced within this new rulebook aim at safeguarding the interest of investors and the integrity of the financial market in the context of virtual currencies. In this regard, the rulebook imposes specific requirements on the governing bodies of the collective investment schemes and, in certain instances, the collective investment schemes' service providers, in relation to competence, risk warnings, quality assessment, risk management and valuation.

These proposals are not binding and are subject to changes and revisions following receipt of feedback from the industry. The industry is invited to submit, for the consideration of the MFSA, any additional changes or improvements to the draft Rules intended to enhance this rulebook. A copy of the proposed rulebook can be downloaded [here](#).

The MFSA is inviting stakeholders to send their comments and feedback by 10th November 2017, on the following email: [vcfunds@mfsa.com.mt](mailto:vcfunds@mfsa.com.mt).

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## **MFSA reacts to Feedback on investment-based crowdfunding**

Late last year the MFSA had issued a Discussion Paper on investment-based crowdfunding. The deadline for the submission of comments was 15th March 2017 and the Authority received nine responses. After careful analysis of the comments received, the MFSA published a Feedback statement, summarising the main comments received and the Authority's position.

The Authority took cognisance of the wide array of issues which were raised in response to this consultation exercise. The Authority's position has been determined after a careful and thorough consideration of the feedback received.

Through the Discussion Paper the Authority identified the investment service most likely to be provided by investment-based crowdfunding platforms as the reception and transmission of orders. The crowdfunding platform receives orders from investors to subscribe for instruments and transmits them to the issuer or another third party intermediary for execution. Respondents were asked whether they viewed reception and transmission of orders as the typical activity of an investment-based crowdfunding platform, and whether there are other investment services which they deem relevant to crowdfunding such as; placing of financial instruments,

investment advice or execution of orders on behalf of clients. Participants were also asked to comment on how investment-based crowdfunding platforms handle investors' funds.

Any comments or queries in relation to these Regulations or in relation to this feedback statement should be addressed to the Regulatory Development Unit, MFSA via: [finreg@mfsa.com.mt](mailto:finreg@mfsa.com.mt).

## MFSA hosts the 14th Network Meeting of Risk Analysis Division (RIA) of the ECB's Single Supervisory Mechanism (SSM)



Photo - MFSA - Geoffrey Buhagiar LMIPP LSWPP

*Participants at the ECB RIA event*

On Thursday 28 September 2017, the MFSA, hosted the 14th RIA Network Meeting. RIA is a cross-sectional function within the Directorate General Micro-prudential Supervision IV (DGMSIV) within the SSM of the European Central Bank (ECB).

RIA is tasked with monitoring changes in the overall risk environment of the SSM euro area, conducting further in-depth risk analysis activities that cover a broad range of risk categories and topics, raising issues as necessary and supporting the pan-euro area supervisory activities. The RIA Network is convened on a quarterly basis through a framework consisting of network meetings involving delegates representing all euro area countries.

The Malta meeting was held at the Westin Dragonara Resort, St Julians on and was attended by 36 delegates coming from all euro area countries.

A number of papers were discussed during the meeting, ranging from a thematic review on euro-area wide bank profitability, lending standards, stress test results to a comprehensive overview of the Maltese banking market.

Furthermore, as an integral part of the RIA Network Meeting, top officials from RIA conducted bi-lateral meetings with the MFSA, the Central Bank of Malta and the two largest banks operating in Malta.

## ECB Internal Auditors Committee - Task Force on Quality Management



*Participants at the ECB Internal Auditors Committee*

On the 4th and 5th October 2017, the MFSA hosted the meeting 58th meeting of the Task Force on Quality Management of the ECB Internal Auditors Committee.

During the meeting, the Task Force continued to discuss the work programme on audit methodology and standards and also outlined the work to be carried out during 2018. The Task Force members also met the Chairman of MFSA, Prof. Joe Bannister and information was exchanged on the positive collaboration between the MFSA and the ECB Internal Auditors Committee.

Mr John Sammut, MFSA's Director Internal Audit and member of the ECB - IAC, represents the MFSA on this Committee.

## Job Exposure 2017-2018 launched

The MFSa Education Consultative Council (ECC) will this year be again organizing its annual Job Exposure Programme for the period 2017-2018. This programme is organised in conjunction with the Directorate for Educational Services (DES-State Schools), as well as with the local Church and Independent Schools. The work experience in the financial services sector, which this programme offers, is aimed at Fourth Form students who would currently be studying Accounts, Economics, and/or Business Studies.

This initiative provides a golden opportunity to the students to experience different areas of work and environments involved in the Financial Services Sector, and the ultimate objective is that of enabling students to better understand what goes on at these workplaces, and then possibly deciding on their future careers.

The MFSa thanks all those firms who have taken part in previous such Job Exposure programmes, an initiative which benefits both students with new opportunities, but also employers of this important sector for the country's economy.

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## MFSa Circulars

- 05/10/2017 - [Circular - Revisions to the Investment Services Licence - Directive 2014/65/EU of the European Parliament and of the Council – Markets in Financial Instruments Directive \(“MiFID II”\)](#)
- 11/10/2017 - [Circular: ESMA MiFID II / MiFIR Investor Protection Q&As](#)
- 13/10/2017 - [Circular on Directive 2014/65/EU on Markets in Financial Instruments \(“MiFID II”\) and Regulation 600/2014 on Markets in Financial Instruments \(“MiFIR”\)](#)
- 30/10/2017 - [Circular 09/17 - Listed Issuers Must Focus on New IFRS Standards 2017 Annual Financial Reports](#)

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## MFSa Warnings

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

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## MFSa Media Releases

- 26/10/2017 - [MFSa joins Pink October awareness campaign](#)

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## MFSa Consultation Papers and Documents

- 26/10/2017 - [Consultation on the Proposed Regulation of Collective Investment Schemes investing in Virtual Currencies](#)

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## European Supervisory Authorities' Announcements

- 09/10/2017 - [ESMA highlights importance of LEI for MiFIDII/MiFIR compliance](#)
- 11/10/2017 - [EIOPA publishes guidelines on “execution-only” sales](#)
- 17/10/2017 - [ESMA launches key MiFID II and MAR financial instrument reference database](#)

## MFSA Licences – October 2017

### NEW LICENCES

#### Banking

- Financial Institution licence issued to **Phoenix Payments Limited**.

#### Insurance

##### *Insurance undertakings*

- Authorisation issued to **Traveljigsaw Insurance Limited** to carry on business of insurance and reinsurance in two classes of the general business.

##### *Binding Authority Agreement*

- Registration certificate issued to **CLS Risk Solutions Ltd** to accept business of insurance under the underwriting agreement entered into with **ERGO Versicherung AG - UK Branch** in three classes of the general business.

#### Pensions

##### *Retirement schemes*

- Registration certificate issued to **The Dominion Personal Retirement Contract**.

#### Collective Investment Schemes

##### *Notified Alternative Investment Funds targeting Professional and Qualifying Investors*

- **Ariadne Capital ECO2 VC Limited Partnership** in respect of two sub-funds included in the List of Notified AIFs in terms of Regulation 6 of the Investment Services Act (List of Notified AIFs) Regulations 2016.
- **Prescient Asset Fund SICAV plc** in respect of one sub-fund included in the List of Notified AIFs in terms of Regulation 6 of the Investment Services Act (List of Notified AIFs) Regulations 2016.

##### *UCITS*

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

#### Investment Services

- Category 2 licence issued to **fair-finance Asset Management Limited**.
- Category 2 licence issued to **FABAR Wealth Management Limited**.

**Company Service Providers**

- Registration certificate issued to **RTS Advisory Limited**.

**Securitisation Vehicles***Cells*

- Acknowledgement issued to **ADT Vision Convertible Bond ETP Cell**.
- Acknowledgement issued to **EvCorp Asset Management Inc Cell**.

**SURRENDERED LICENCES****Collective Investment Schemes***Professional Investor Funds targeting Qualifying Investors*

- Surrender of licence issued to **J&T Advanced Solutions SICAV plc** in respect of one sub-fund.
- Surrender of licence issued to **KC Funds SICAV plc**.
- Surrender of licence issued to **PMG Partners SICAV plc** in respect of one sub-fund.
- Surrender of licence issued to **Polaris Finance SICAV plc** in respect of one sub-fund.
- Surrender of licence issued to **The Gandon Macro Fund SICAV plc**.

**Investment Services**

- Surrender of Category 2 licence issued to **DS Platforms Limited**.
- Surrender of Category 2 licence issued to **Innocap Global Investment Management Limited**.

**Registry of Companies - New Registrations – October 2017**

Companies	Partnerships
458	6

## Forthcoming Events



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.*



*A portal of financial information from the regulator about financial products and services.*



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