

SUPERVISION
PRIORITIES 2020

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Table of Abbreviations

AML	Anti-Money Laundering
CFT	Combatting the Financing of Terrorism
CSPs	Corporate Service Providers
ECB	European Central Bank
ESAs	European Supervisory Authorities
ESEF	European Single Electronic Format
EU	European Union
FATF	Financial Action Task Force
FI	Financial Institution
FIAU	Financial Intelligence Analysis Unit
FT	Financing of Terrorism
GDPR	General Data Protection Regulation
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
MFSA	Malta Financial Services Authority
MIFID	Markets in Financial Instruments Directive
ML	Money Laundering
NRA	National Risk Assessment
RSA	Retirement Scheme Administrators
SREP	Supervisory Review and Evaluation Process
TPR	Temporary Permissions Regime
TUBOR	Trusts Ultimate Beneficial Ownership Register
UK	United Kingdom
VFA	Virtual Financial Assets

Background and Context

The publication of the [MFSA Strategic Plan 2019-2021](#) laid out the Authority's overall strategic objectives, framework and priorities for the 2019-2021 period. To achieve these targets, the Authority is now publishing the focus areas of its supervisory activities for 2020. These priorities have been developed taking into account the market environment, legislative and regulatory developments, the ESAs' supervisory programmes and recommendations of international standard-setters¹. The priorities are also being set on the basis of past supervisory experience, also highlighted in the recently-published [Supervision: Risks Identified, Weaknesses and Expected Controls – A Cross-Sectoral Analysis](#).

In this document, the Authority sets out the identified priority areas and highlights both the work which it is planning to undertake in order to address the various priorities and the regulatory and supervisory tools that will be used to meet those objectives. The public is being provided with visibility on other key areas on which the Authority will be consulting, as well as any major initiatives which may be expected in 2020. By virtue of this publication, the Authority aims to increase accountability and transparency and enables industry and consumers to understand the entirety of its work.

The document consists of three main sections. Section I identifies six cross-sectoral themes where the MFSA's work will impact on multiple sectors in the coming year, namely: governance and culture; financial crime compliance; retail investor protection; cross-border operations; cybersecurity; and financial soundness. Section II then examines five areas of the financial services sector and highlights sector-specific priorities with respect to credit and financial institutions; insurance and pensions; securities and markets; trustees and corporate service providers and virtual financial asset operators. Section III of the document outlines the regulatory and supervisory tool/s the Authority will be utilising to meet those priorities. Section IV summarises other MFSA key initiatives in the pipeline for 2020.

Establishing priorities is important for coordinating actions and enhancing the supervisory impact. Nevertheless, activities other than those highlighted in the document will continue to be carried out on an ongoing basis and tailored supervisory activities due to entity-specific circumstances may be required.

An important development underpinning this publication is the MFSA's recent organisational restructuring that has allowed the Authority to fuse the three pillars of its supervisory strategy - prudential, conduct and financial crime compliance supervision. Supervisory priorities have implications on resource allocation and are formulated according to budget constraints and/or new demands. The priorities set out in this document may change during the year as the Authority responds to events which may necessitate adding new priority areas. Furthermore, the full implementation of certain activities to be undertaken in addressing the indicated

¹ In particular, the [JMF's Financial Stability Assessment Programme](#) as well as [Moneyval's Mutual Evaluation Report](#).

priorities may span over more than one year. Any changes to the MFSA's priorities outlined in this document will be communicated through further interactions, as may be deemed necessary.

Section I



Cross-Sectoral Themes

Introduction

The MFSA has identified six core cross-sectoral themes for 2020, namely: governance and culture; financial crime compliance; retail investor protection; cross-border operations; cybersecurity; and financial soundness.

The MFSA adopts a risk-based approach to financial supervision taking into account the potential macro and micro prudential, conduct and financial crime risks associated with the firms it oversees. It focuses its supervisory and regulatory activities on those areas which pose the greatest risk to the financial market with the aim of minimising the occurrence of breaches and ultimately protecting consumer interests and safeguarding integrity and confidence in the financial market. Supervision is guided by the proportionality principle and the extent of supervision depends on the nature and scope of the business activities and the corresponding overall risk profile.

The aim of this section is to emphasise the supervisory and regulatory efforts of the MFSA during 2020. Other supervisory activities falling within the scope of the cross-sectoral themes but not specifically outlined hereunder, will continue to be carried out on an ongoing basis.

Governance and Culture

Good governance and the right culture enable firms to make judgement calls and decisions in the best interest of consumers and markets, even in the event of lack of regulatory guidance or outright bans. The MFSA aims to assist regulated entities in fostering such culture and ensuring that proper governance standards are in place.

The Authority takes its due diligence process very seriously. During 2020, the MFSA will heighten its efforts to ensure that approved persons maintain their fit and proper status (refer to [Guidance on the Fitness and Propriety Assessments by the Authority](#)) through regular screening. In addition, the MFSA will also be focusing its efforts to ensure that individuals with multiple appointments are able to dedicate enough time and resources to carry out their roles effectively.

The MFSA will closely assess the extent to which the governing body is setting the tone at the top to foster an effective compliance culture, leading by example in emphasising the standards of honesty and integrity, *inter alia* through remuneration arrangements and conflicts of interest management.

In addition, the Authority wants to ensure that management is receiving the right information, decision-making processes are clear and issues are effectively detected, escalated and managed. In this respect, the MFSA will be making sure there is an adequate level of

contribution and discussion from all governing body members (executive and non-executive) during board proceedings and no rubber stamping of decisions.

Moreover, the MFSA will be closely monitoring how authorised entities are dedicating resources to their internal control functions; that are responsible and accountable for directly assessing, controlling and mitigating risks.

Financial Crime Compliance

In 2020, the MFSA will continue monitoring the compliance of regulated entities with AML/CFT obligations.

AML/CFT is one of the MFSA's strategic priorities as outlined in a dedicated [AML/CFT strategy](#). The Authority has been investing heavily and actively implementing the necessary changes - integrating financial crime assessments in its prudential and conduct assessments. The objective is to establish an AML/CFT focus embedded during the entire lifecycle of supervised entities ensuring the necessary ML/FT risk awareness and risk assessments.

The supervisory process, established together with the FIAU, entails a risk-based approach and is structured as follows: Category One – Ongoing supervision of higher risk firms, Category Two – Sampled review of other firms, Category Three – Event-driven reviews of firms and Category Four – Thematic reviews of firms.

Together, and on behalf of the FIAU, the MFSA will continue to conduct inspections to assess the business models of subject persons and whether their AML/CFT governance and control frameworks mitigate ML/FT risks, and if not, to apply the necessary remediation measures. This work will follow a risk-based approach which is modelled to be consistent with the findings of the NRA and aligned with the FATF core principles.

Retail Investor Protection

Adding public value and protecting consumer interests are key strategic objectives of the MFSA. 2020 will see continued focus on retail investor protection to ensure that the interests of consumers of financial services are protected and are placed at the centre of licensed entities' operations. During the upcoming year the Authority will, through a risk-based approach, ensure that:

- regulated entities have proper product oversight and governance arrangements in place;
- disclosure documentation issued by regulated entities to their clients on a pre-contractual basis is compliant with the requirements and methods established in the relevant legislative frameworks; and
- on an ex-post basis, promotional material issued by regulated entities is fair, clear and includes all the necessary information.

Cross-border Operations

During 2020, the Authority will be increasing focus on business models that rely heavily on cross-border orders, transactions and activities in their operations. Close collaboration with regulators in host Member States will be key where cross-border groups and branches are established. Taking into consideration the respective responsibilities in cross-border cases, the MFSA will be monitoring any resultant conduct risk to investor protection issues arising from cross-border offering of consumer products and services.

Cybersecurity

Measures and initiatives are planned to be undertaken by the MFSA to ensure that regulated entities have a cybersecurity programme in place. Such initiatives should be seen in conjunction with international and national recognised cybersecurity standards, as applicable, and the EU GDPR, designed to enhance regulated firms and activities' resilience to cyber-attacks and mitigate the risks associated with such threats, such as disruption of service, data breaches and the loss of data, amongst others.

Through a risk-based application of this supervisory priority, largely influenced by business model type, delivery channels and dependence on technology, the MFSA will be assessing regulated firms and activities' resilience to cyber-attacks, management of cyber risk and adherence to cybersecurity policies.

Financial Soundness

The MFSA will continue its ongoing monitoring of prudential requirements relating to capital adequacy, business model profitability, liquidity and general financial soundness of regulated entities. More intrusive supervision will be applied on a risk-based approach, in sectors and on entities that are identified as being exposed to greater risk. The Authority will continue furthering its work on the monitoring and identification of financial stability risk and mitigation of external risks by regulated entities.

Section II



Sector-Specific Priorities

Introduction

This section outlines the sector-specific priorities that the MFSA will be focusing on in 2020. The priorities outlined in this section build on the cross-sectoral supervisory work that will be conducted by the MFSA during 2020 and should not be considered in isolation.

Credit and Financial Institutions

Credit Institutions

The supervisory focus areas in relation to Credit Institutions are set out on an annual basis after giving due consideration to the key economic and financial risks prevailing in the banking sector as well as the annual supervisory priorities set out by the ECB².

Credit risk remains a key supervisory priority for the MFSA in 2020. The attention that the regulatory authorities have persistently given to the issue of non-performing loans in the past years was one of the drivers behind the declining non-performing loans ratio in Malta. Pockets of vulnerabilities persist and within this context the MFSA will in 2020 continue its efforts to ensure that banks continue to address their non-performing loans. Equally important is the assessment of credit underwriting criteria to ensure that prudent underwriting standards are maintained also in time of economic growth.

Business model and profitability risk is perceived as a principal area for supervisory focus by the MFSA in 2020. In the context of enhanced regulatory requirements, low and flat yield curves and a high level of competition in the euro area banking industry, banks should adapt their business models according to the demanding environment so as to ensure short-term viability and long-term sustainability

While the current capitalisation level of banks in Malta remains comfortable and of high quality, the MFSA will remain vigilant to ensure that banks adopt prudent policies that preserve their capital level. The MFSA will in 2020 also continue monitoring the liquidity of banks.

The MFSA will also be working on the ICAAP and ILAAP to further improve the quality of banks' ICAAP and ILAAP documents as well as the respective governance arrangements. This will be done by clearly communicating to banks the supervisory expectations around ICAAP and ILAAP.

It is recognised that further improvements are still needed in banks' governance framework. Considering its cross-cutting nature, governance has been included as a cross-sectoral theme but specifically, depending on the respective supervisory activity, the MFSA will assess

² https://www.bankingsupervision.europa.eu/banking/priorities/html/ssm.supervisory_priorities2020-b67449d936.en.html#toc1

governance aspects from several perspectives, including board functioning and organisational framework, internal control functions, and data aggregation and quality, thereby complementing JSTs' ongoing assessment of governance as part of the SREP.

During 2020, the MFSA will continue to follow-up on the status of findings which were identified from the mystery shopping exercises. The latter were conducted by the MFSA during 2018 and 2019 in relation to the implementation of certain aspects of the Payment Accounts Directive. The supervisory programme for conduct supervision in this sector will be expanded to include banks acting as distributors of insurance and securities products.

In 2020, the MFSA will also continue to monitor developments in technology generally and IT risk and operational resilience, in particular.

Financial Institutions

In the main, Financial Institutions tend to operate with a leaner internal governance structure than credit institutions. The search for an adequate balance between governance structures and the nature, scale and complexity of an institution is thus perceived as a major challenge for FIs. The MFSA will continue its drive to ensure that FIs adopt good governance practices by stressing on the timely resolution of gaps in governance structures. The MFSA will collect information on the internal governance structures of all FIs and thereafter undertake a thematic assessment of a sub-set of FIs with the objective of determining minimum standards of good governance. FIs falling short of such standards will be required to undertake remedial action.

Business model analysis therefore remains a key priority for the MFSA and emphasis will be given to ensuring that licensed entities operate a viable and sustainable business model. This analysis will be based on a pre-determined risk appetite framework and will take into account the stage in the entity's business life-cycle as well as the increased reliance on FinTech models. The latter represents a challenge to the supervisor due to the innovative nature of the business models and delivery channels.

The evolving regulatory landscape, driven mainly by the second Payment Services Directive, has put Financial Institutions under added pressure to ensure regulatory compliance. The MFSA considers that Financial Institutions' adherence to the PSD II requirements is still not at the desired level whereas the afore-mentioned difficulties to fulfil business plans has necessitated that Financial Institutions regularly inject funds from the respective shareholder(s) to remain above the own funds limit.

Financial Institutions undertaking payment services and issuing electronic money are significantly exposed to IT Risk in view of their business models and delivery channels. If not adequately managed, such risk could lead to a significant financial loss and security threats to data, the institution itself and customers.

Insurance and Pensions

The MFSA will further develop and strengthen a comprehensive risk-based and preventive approach to prudential and conduct of business supervision in the area of insurance and pensions. Building on the general cross-sectoral themes, in 2020 the Authority will be specifically assessing the effectiveness of:

- a. the compliance activities, internal controls and monitoring undertaken by principals in relation to tied insurance intermediaries, agents, managing general agents, delegated authority and other arrangements;
- b. the compliance function of (re)insurance undertakings which is outsourced to insurance management companies. This may capture other functions outsourced to insurance management companies depending on the criticality/ materiality of such functions;
- c. compliance activities in relation to suitability and conduct undertaken by retirement scheme administrators; and
- d. governance structures and internal controls implemented by intermediaries (including insurance management companies) particularly in relation to binder arrangements (where applicable)

Stricter requirements brought about by the Insurance Distribution Directive mean that licence holders cannot simply offer products through generic statements about the type of needs each product will meet. In 2020, the Authority will look at how insurance distributors (brokers), assess, specify and communicate the demands and needs of the customer prior to the conclusion of a contract of insurance.

Furthermore in 2020, the Authority intends to conduct a research into consumers' attitudes and behaviour relating to home insurance to enhance understanding of the practices related to this specific product.

Securities and Markets

Collective Investment Schemes and their Service Providers

The fees and expenses charged to investors in collective investment schemes are important because of their impact on investment returns. The MFSA expects appropriate information about these fees and expenses to be made available in a transparent manner in the product prospectus so that investors can take them into account when making an investment decision. In 2020, the MFSA will closely monitor the application of performance fees charged by UCITS

focusing on: [i] the methodology applied, [ii] consistency between the performance fee model and the fund's investment objectives, and [iii] disclosure of the performance fee model.

The retail investor will be the constant focus of the MFSA in its supervisory work for 2020. The Authority will carry out enhanced supervisory efforts in the areas of retail collective investment schemes (UCITS and retail AIFs).

The MFSA recognises the increasing reliance of authorised entities on outsourced serviced providers, which may include both the use of intra-group entities and third-party providers. The Authority accordingly intends to place greater supervisory focus in the area of outsourcing to ensure that there is proper management of the risks arising from such activities.

Following up on the work done in 2019, the MFSA may also carry out additional supervisory work in the area of liquidity management practices of asset managers, taking into account the implementation of applicable initiatives in the area such as ESMA's Guidelines and proposed review assessment regarding liquidity stress tests of investment funds.

Investment Firms

Following the expiration of the ESMA temporary product intervention measures, the MFSA implemented its own national permanent measures in relation to the restriction of the marketing, distribution or sale of contracts for differences to retail clients and the prohibition on the marketing, distribution or sale of binary options to retail clients, following an extensive consultation process. During 2020, the MFSA will keep on monitoring the implementation of the national product intervention measures in relation to contracts for differences and binary options. The MFSA will also monitor the disclosed risk warnings in order to ensure that the latter are in line with the requirements as detailed in the Conduct of Business Rulebook.

In particular, during 2020, the MFSA will follow-up on the current supervisory work which is being undertaken in relation to the classification of clients as elective professional investors. Within this context, the MFSA will ensure that an investment firm may treat a retail client as a professional client on request only if an adequate assessment of the expertise, experience and knowledge of the client gives reasonable assurance, in light of the nature of the transactions or services envisaged, that the client is capable of making investment decisions and understanding the risks involved.

During 2019, ESMA launched its first Common Supervisory Action, wherein participant National Competent Authorities carry out simultaneous supervisory activity by focusing on the assessment of appropriateness as carried out by investment firms. The MFSA is currently carrying out a series of focused onsite inspections in order to assess the application of appropriateness rules as adopted by the selected firms. The MFSA will keep on following on this exercise during 2020.

The assessment of suitability is deemed to represent one of the key obligations for investor protection within the MiFID II context. As a result, during 2020, the MFSA will be conducting focused supervisory activity in this important area.

In 2020 the MFSA intends to conduct a risk-based thematic review in order to examine the costs and charges reporting of a sample of investment firms and compare the referred reporting to the regulatory requirements emanating from the MiFID II (ex-ante and ex-post reporting requirements on costs & charges).

Capital Markets

In light of the planned initiatives that continue to foster supervisory convergence on supervision and enforcement of financial and non-financial information, in 2020 the MFSA will follow up on issues and shortcomings that were identified in the previous peer review of ESMA's Guidelines on enforcement of financial information. In addition, the MFSA will engage regularly with the industry to actively monitor the implementation of the requirements related to the ESEF and provide as much support as needed in this area of reporting.

As part of the MFSA's regular monitoring of market infrastructures the MFSA will continue to assess trading venues and their participants such as brokers and issuers to ensure they have systems, procedures and arrangements in place to detect and prevent market abuse in pursuit of the MFSA's objective to ensure market integrity.

In order to ensure accurate, up-to-date and meaningful information on risk from derivative positions all derivative trades need to be reported to a trade repository. This objective is achieved when high quality data is reported by counterparties. In 2020, the MFSA will focus on contract format and reporting controls, data quality and timeliness and completeness of the derivative submissions under EMIR. Additionally, in 2020 the reporting obligation under SFTR will come into force requiring securities financing transactions to be reported to a trade repository. A similar approach to EMIR will be adopted here, where *inter alia* the MFSA will ensure proper adherence to the reporting obligation and that the quality, completeness, and timeliness of such reports are as required under the SFTR. In terms of data quality attention will also be given to some aspects of MiFIR and AIFMD reporting.

Trustees and CSPs

The MFSA is tasked with the administration of the register for beneficial owners of trusts that are administered by trustees licensed under Maltese law.

2019 saw the development of an online platform for the TUBOR in order to facilitate the electronic submission of beneficial ownership information of trusts. The MFSA have also

provided entitled persons, in terms of law, with access to the register to facilitate the collection of ownership information.

In 2020, the MFSA will continue to verify the accuracy of the data reported in the TUBOR and follow-up with licensed entities to ensure highest data quality and accurate reporting of findings. It is expected that in 2020, the inflow of information will increase due to the impact of the fifth AML Directive. The Authority will also continue monitoring business models of Trustees and CSPs and their level of risk acceptance.

Virtual Financial Assets Operators



The VFA Act ('the Act') (Chapter 590 of the Laws of Malta) came into force on 1 November 2018. During 2019, the MFSA registered several VFA Agents and started receiving requests for registration of whitepapers for the offering of VFAs to the public and applications of firms providing/wishing to provide VFA Services as set out within the Second Schedule to the Act. During 2020, the MFSA will be monitoring the operations of persons authorised under the Act.

Section III



Regulatory and Supervisory Tools

Introduction

This section outlines the regulatory and supervisory tool/s the Authority will be using to meet the cross-sectoral and sector-specific priorities outlined in this document.

The Authority's Toolkit

As outlined in the [MFSA Strategic Plan 2019-2021](#), the MFSA plans to enhance its monitoring of market threats by calibrating its toolkit to enhance the effectiveness of the oversight of financial markets. In 2020, the Authority will continue with the planned investment in supervisory technology and business intelligence to enhance operational efficiency and effectiveness.

Ongoing desk-based supervision will continue to be a key tool for ensuring compliance. MFSA officials responsible for monitoring individual licensed entities will apply different techniques to analyse and assess compliance with rules and regulations set by the MFSA. The main source of information is the financial and prudential returns periodically submitted by licensed entities which could be supplemented by further information requested on an ad-hoc basis if deemed necessary.

As a general principle, for 2020, the Authority aims to increase the coverage of the MFSA's risk-based supervisory interactions, including interactions with directors, board committees and management in key focus areas. MFSA officials will carry out onsite inspections by visiting the premises of licensed entities in order to review their business operations and risk management processes as well as reaching an informed judgment on their business activities and financial conditions. When and where considered necessary, MFSA officials will follow-up issues and supplement the visits with deep dives, addressing specific risk areas or supervisory meetings with senior officers of licensed entities. The MFSA will also intensify and harmonize the follow-up to post onsite inspection remedial action to ensure that any weaknesses are effectively addressed in a timely manner.

In 2020, the MFSA will continue developing its thematic reviews and mystery shopping exercises targeted at a representative sample of entities. These studies will help identify common findings and guide further initiatives to urge improvement and avoid common pitfalls.

Additionally, the MFSA will continue investing in new tools to achieve its objectives. Through a dedicated supervisory technology tool, the MFSA will be better-positioned to exert powerful oversight, automate regulatory processes and audit the risk management of virtual asset business that is licensed in Malta. A risk-scoring tool will enable us to assess the level of involvements more accurately.

As part of its commitment in ensuring more effective supervision, 2020 will see the introduction of a regime focused on the appointment of qualified persons to undertake independent compliance audits in relation to one or more areas of focus of a firm's activities as indicated by the Authority.

In 2020 the MFSA will continue building relationships with European peers for effective cross-border supervision of such regulated entities; including participation in AML colleges and platforms. The Authority aims to establish closer working relationships with National Competent Authorities particularly with those jurisdictions with greater concentration of cross-border activities.

In doing this, the MFSA will leverage on the number of MOUs it has signed with other supervisory authorities to obtain information on licensed entities and individuals to enable us to make informed judgements both at every stage of the entity's life cycle and in taking regulatory action. Here, the MFSA's aim is to embark on internal studies to assess the emerging risks and threats of firms passporting in and out of Malta on a freedom of service basis.

Through active educational campaigns and training the Authority aims to enhance knowledge of specific risks such as ML/FT risks and ensure that this enhanced knowledge includes an appreciation of wider group risks. Furthermore, the MFSA will also launch other educational campaigns targeted at the general public so as to increase awareness of basic financial services and products which they may need to access during their lifetime.

Regulatory briefings, seminars and publications will also be organised and published on a regular basis to provide stakeholders with information on the results of the analysis, key market data and thematic studies as well as to provide the necessary guidance in applying the rules.

Section IV



Other Key Initiatives

Introduction

This section outlines the other 2020 key initiatives, giving visibility to key areas where the MFSA will be consulting stakeholders, the major changes expected in the upcoming year and other work that may impact the operations/efforts of regulated entities.

Regulatory and Policy Initiatives

The MFSA is currently working on a number of regulatory and policy projects that have been/ will be initiated during the course of this year and will extend into 2020, while others will be introduced during 2020. It should be understood that the regulatory and policy initiatives outlined below are supplementary to the transposition or otherwise implementation of EU legislative and regulatory frameworks.

Raising the bar for Company Service Providers

The Authority considers CSPs to be crucial to the integrity of the financial services sector. They are usually the first point of contact for persons wishing to undertake business activity in Malta and are therefore considered to be gatekeepers as they have a role of preventing persons who are not fit and proper from entering the financial system. The MFSA launched a [consultation process](#) on raising standards for all persons providing the services of a CSP by harmonising market entry requirements and addressing existing expectations gaps during October 2019 and shall be communicating further on the subject in the coming months.

Corporate Governance Standards

Corporate governance is crucial for the sound operation of an organisation. Good corporate governance contributes greatly towards accountability and transparency. It enhances public confidence and fosters mutual trust between supervised entities, investors and the general public. The MFSA has already published the '[Corporate Governance Manual for Directors of Investment Companies and Collective Investment Schemes](#)', the '[Corporate Governance Guidelines for Public Interest Companies](#)' and the '[Code of Principles of Good Corporate Governance for Listed Entities](#)'. However, the Authority has recognised the need for a holistic Corporate Governance Code for Licence Holders and Listed Entities. The Authority will in the coming months be publishing a consultation document to this effect, seeking stakeholders' views on proposals which the Authority will be making *inter alia* with respect to: [i] the type of code which will be promulgated (comply or explain, apply and explain etc.); [ii] the Code's enforceability; and [iii] how the Authority plans to raise the bar vis-à-vis corporate governance.

Independent Compliance Audits

In line with [MFSA Vision 2021](#), the MFSA is continuously aiming at strengthening its supervisory engagement, with the aim of better achieving its statutory objectives, as well as safeguarding the interest of consumers and the reputation of Malta as a jurisdiction of choice for financial services. In this respect, the MFSA intends to implement a new framework in order to have an additional supervisory tool, to strengthen further the MFSA supervisory approach and ensure proper and effective supervision of the MFSA's licence holders. The MFSA has [consulted](#) on the topic during July and August 2019 and will be publishing its position in the coming months.

Capital Markets Strategy

The MFSA is currently in the process of formulating its Capital Markets Strategy, expected for publication next year. The Capital Markets Strategy will focus on the following five pillars: [i] revisiting the risk appetite of the Authority; [ii] revisions required to the regulatory framework; [iii] strengthening the sponsors regime; [iv] building on supervisory capacity; and [v] investor education. As part of this strategy the MFSA is also formulating a Security Token Offering Policy and has [consulted](#) on this topic during July and August 2019. The MFSA will be issuing the feedback statement and the wider Capital Markets Strategy in the coming months.

Other Initiatives

During 2020, the MFSA will be conducting work and taking policy initiatives focused on the area of asset management, which, *inter alia*, will propose changes to existing regulatory frameworks, as well as other proposals aimed at enabling asset managers to operate more efficiently.

The Authority will also be undertaking a Banking Sector Review, analysing the impact of FinTech on the banking sector through an assessment of resultant threats, vulnerabilities and opportunities with the aim of putting forward proposals in order to address the latter.

The MFSA will also continue working on the implementation of the FinTech Strategy, will see the introduction of a regulatory sandbox and an FinTech innovation hub.

Other 2020 key initiatives and priorities include work on macro prudential financial stability and shadow banking, the interconnectedness model and sustainable finance.

Brexit

One key uncertainty for 2020 is the UK's withdrawal from the EU and the MFSA continues to prepare for both a no-deal Brexit scenario, where it will focus on managing the immediate risks and issues, and the scenario where a withdrawal agreement is in place.

During 2019, the MFSA has assessed the impact of a no-deal Brexit on licensed entities across the banking, investment services, and insurance and pensions sectors. It has engaged with these entities and instructed them to have appropriate contingency plans. Several circulars on the topic were also issued by the Authority.

With the outcome of the political negotiations still unclear at the time of the publication of this document, the impact of Brexit in 2020 cannot be formulated, but the MFSA will continue to monitor the level of preparedness, taking into account the public communications issued by the European Commission and the ESAs.

In a no-deal Brexit scenario, the MFSA will focus on ensuring that the immediate risks and issues are managed. In the scenario where a withdrawal agreement is in place, the MFSA will have more time to implement any relevant actions in relation to Brexit, taking into account the discussions on the future relationship being held between the political negotiators. Key priority areas will be the following:

Relocations and local setups

The MFSA will continue monitoring and applying a substance-based approach to any applications for entities relocating from the UK to the Malta, in the context of the UK's withdrawal from the EU. The Authority will also ensure that the business models and structures that involve UK entities can continue to adhere to supervisory expectations. This will be done through meetings and engagement with applicants and licensed entities.

UK firms passporting in Malta / Malta firms passporting in the UK

The MFSA will continue monitoring relevant entities that operate on a cross-border basis and their applications for the domestic or UK TPR, as well as the exposure of local market participants and clients to the UK. This will include the implementation of Malta TPR for securities, engagement with UK authorities on the UK TPR and engagement with affected entities on their contingency plans.

Conclusion

This document outlined the cross-sectoral themes and the sector-specific priorities that the MFSA will be focusing on in 2020 and provides the regulatory and supervisory tool/s the Authority will be utilising to meet those priorities. The document further highlighted other MFSA key initiatives for 2020, giving visibility to key areas where the MFSA will be consulting stakeholders, any major initiatives expected in the upcoming year and other work that may impact the operations/efforts of regulated entities. It is emphasised that the priorities outlined in this document should not be considered in isolation, but rather as focus areas of a wider array of supervisory work which the Authority will be performing in 2020.

Going forward, the Authority intends to continue publishing this document periodically, in order to strengthen its supervisory objectives and also support authorised entities in complying with their regulatory obligations. Moreover, the inclusion of an update for stakeholders on the progress achieved with respect to the supervisory priorities of the previous year, is also being considered. The Authority is also committed to increasingly provide guidance to entities, highlighting risks arising, common findings and assisting them in achieving a level of best practice compliance.

Regulated entities are expected to discuss the contents of this document with their Board of Directors, or equivalent administrative body, and examine the implications on their business activities.

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