MFSA MALTA FINANCIAL SERVICES AUTHORITY

Explanatory note to the 2019 Audited Financial Statements

Revenue:

During the financial year ending 31 December 2019, the Authority generated a total revenue of €11.2m compared to €16.2m in 2018. Removing the revenue generated from the Malta Business Registry in 2018 (which was demerged from the MFSA with effect from 1 May 2018), the comparable revenue generated would amount to €11.2m. This means that the Authority's revenue, which is made up of authorisation and supervisory fees, remained flat between 2018 and 2019. The reason is primarily related to lower authorisation fees generated in 2019 (compared to 2018) which was compensated with the introduction of FinTech fees and an increase in authorised listings leading to a flatlining of revenue.

To compensate for the shortfall between revenue generated by the Authority and operating expenditure incurred in 2019, the Government contributed a total of €24.8m in subventions which represents 69% of the annual total income of the Authority.

During 2019, the Authority developed a new 5-Year Business & Financial plan for the period 2020 – 2024 which is based on a new fee policy and revenue concept underpinned by a cost recovery business model. The business plan addresses the long-term resourcing requirements in terms of capacity, right sizing and skill sets but also entails substantial investment in technology, business intelligence and data management infrastructure and systems. This means that the Authority is set to become self-funded by the years 2024-2025 through a gradual increase in authorisation and supervisory fees but also the introduction of new ancillary fees. This would ensure long term sustainability of the Authority, taking into account the resources needed for the future so that it can execute its mandate to the standards expected. This concept would also address the recommendations made by the IMF where financial independence from central Government is a key requirement. It also brings the MFSA in line with the funding model of the ESAs and its peers in Europe where the concept of self-funding is standard practice.

Operating expenditure:

Operating expenditure for the financial year ending 31 December 2019 amounted to €35.2m (2018 - €24.1m). This amounts to an increase of €11.2m year on year (46%). The increases in expenditure related to the following items which in the main were extraordinary in nature (apart from employee costs which form part of a plan):

- Employee costs (€3m) as a result of a planned increase in recruitment to address resource gaps across all supervisory and operational areas. The headcount as at 31 December 2019 stood at 378 employees and is projected to reach 446 by the end of 2020,
- Professional fees (€1.1m) as a result of increased local and international litigation and advisory services relating to financial crime, strategic planning, due diligence and forensic analysis relating to the Authority's supervisory and enforcement activities,
- Regulatory Support fees (€1.2m) related to the sourcing of an international team of AML/CFT experts to support the local team in shoring up resources to carry out a number of onsite examinations of licensed firms and institutions mostly in the area of financial crime compliance,
- Enforcement & Compliance fees (€5.3m) relate to the fees incurred as a result of enforcement action taken by the MFSA against Satabank plc and Pilatus Bank plc which mainly relate to forensics and data analytics.

As part of the Authority's transformation programme and in line with its 3-year strategy, a number of projects were initiated to deliver on key strategic objectives and reforms, including the necessary capacity building to fulfil, in the main, IMF and MONEYVAL recommendations but also to address gaps in technical capacity and expertise particularly in the areas of financial crime and terrorist financing. In this respect, external (international) consulting expertise was sourced to shore up as quickly as possible capacity gaps but also to assist the Authority in its long-term strategic planning and development.

The senior leadership team is making all efforts to control costs, but most importantly make use of resources efficiently. The Authority is also building internal expertise and capacity in order to be able to fulfil its functions, hence significantly reducing dependency on external resources (e.g. local and international advisory services). Having said that, the nature of the Authority's activities will always entail a certain degree of specialised expertise (e.g. in AML/CFT, forensics, due diligence) in specific situations from time to time, albeit more on an advisory basis rather than supplementing internal HR capacity.

Capital expenditure:

The Authority's capital expenditure for the financial year ending 31 December 2019 amounted to €1.9m compared to €1.2m for the same period in 2018. The main expenditure relates to IT/technology equipment (€1.2m) with the rest made up of property improvements and modernisation of facilities and equipment. During the financial year 2019, a total of €2.8m was spent on technology and software including licences and maintenance agreements. The Authority is planning to spend €15m between 2020 – 2022 in information management systems, the biggest investment going into a new Supervisory Cycle Management System (SCMS). The SCMS will automate all supervisory processes hence unlocking more efficiency and efficacy in the regulatory interactions between the MFSA and licence holders.