MFSA MALTA FINANCIAL SERVICES AUTHORITY

STRATEGIC UPDATE 2021

12 April 2021

Contents

To be an independent, proactive and trustworthy supervisory authority whose purpose is to safeguard the integrity of markets and maintain stability within the financial sector for the benefit and protection of consumers.

1. Introduction

As the Authority entered the last year of implementation of its Strategic Plan for 2019 – 2021, it was necessary to step back and take stock of overall progress made in the first two years and to focus our implementation plans of the last 12 months in order to ensure that we shall continue to deliver on our stated Objectives and Vision within the evolving and challenging operating environment. The Authority is also considering its stance and direction of travel for the forthcoming strategic term (2022-2024).

This Strategic Update (2021) takes account of the progress registered internally by the Authority as an organisation in transformation and with our stakeholders in line with our strategic priorities set for the term. Although we have regularly kept our implementation plans in check and steered them according to new information or eventualities not foreseen at planning stage, both the Authority and the sector we supervise continue to face new challenges. There are also new policies that present potential opportunities and/or that require us to align with, particularly those brought about by EU plans/instruments to mitigate economic shocks, protect societies, and stimulate growth and recovery post-COVID-19 pandemic scenario.

The financial services market in general, and in Malta in particular, has weathered the COVID impact well enough, so far, even if some pockets of stress are becoming evident and will continue to be monitored closely.

The sector is playing a critical role in acting as an intermediary for the delivery of state-sponsored financial support to both citizens and businesses. The buffers built over time after the 2009 financial crisis have withstood the shock and we continue monitoring them closely. Resilience has become the essential destination for every business. For the financial services sector itself, we consider it as having a pivotal role owing to the essential infrastructural features it lends to the rest of the economy and society. At the same time, this challenging period is offering a fresh impetus to innovative sectors (such as FinTech).

All of our strategic initiatives must be complemented by an equal dose of commitment by the operators in the sector we oversee. Over the first two years of our programme we have engaged more, both formally and informally, with the firms we supervise in constructive and transparent communication and dialogue that we intend to continue and intensify in the coming months so that together we achieve the targeted outcomes of performance.

On the internal front, our transformation programme, which, for most, has been designed to meet the demands of an increasingly sophisticated and regulated sector, and the convergence of various projects towards the upgrading and upscaling of our operational capacity, has reached a very significant momentum. Our governance structures have been re-engineered and our regulatory, supervisory and investigative processes and risk-based systems have been strengthened to intensify our fight against financial crime and more cohesive supervisory cycles and focus. This will be greatly aided by the significant investment being made in digitalisation and new intelligent systems over the coming three years. Our commitment to the set strategic priorities remains undeterred and with greater resolve we look forward to continuing to achieve what we set out to do.

We acknowledge that the Authority's own transformation process, together with the pursuance of higher compliance performance and enhanced risk management from regulated entities, are no mean feat. However, the unforeseen economic shocks and the evolving economic and social realities brought about by COVID-19 containment measures on both our national, European and global economies and societies have only reinforced our determination to continue to steer the sector to a higher threshold of long-term sustainability. It is for this reason that we continue to pursue our strategic goals while aligning our strategic priorities with the national and European ones in synergy with the national Recovery and Resilience Plan.

2. Strategic Context

The first year of our strategic term, 2019, was characterised by the Authority's determination to work and make progress on all fronts of our strategic plan. The achievements made, as reported in our [Annual Report 2019](), and our action plan for 2020 took place within an economic context that was yielding growth and profitability in all sectors. At the same time, our operating parameters were also being influenced by the opinions and recommendations made by a number of international organisations (such as the IMF, MONEYVAL and the European Commission) which were directly related to the financial services sector and our supervisory structures and methods.

The **MFSA's** operating landscape is normally influenced by national and EU policy and developments in international regulatory standards rather than by health issues. However, the current COVID-19 crisis and the economic shock that subsists from the containment measures, are unprecedented and continue to affect all facets of the economy, some sectors more than others. Major economic sectors, notably tourism and directly related sectors, like hospitality, entertainment and dependent sectors are bearing the economic brunt of the disruptions to air travel and reduced consumer confidence.

The impact on the financial services sectors so far has been generally moderate but it is very much an evolving scenario which is continuously being monitored.

2.1 Disruptions Related to COVID-19

With the outbreak of COVID-19 in Malta in March 2020, and globally, Malta like other jurisdictions restricted physical mobility and stalled swathes of its economy in the second quarter of 2020 in order to contain the spread of the virus. As the number of new cases spikes and falls thereafter our focus rests on supporting, maintaining and sustaining economic resilience as the vaccination programme and other health measures are rolled out.

Operationally, the Authority as a whole and all of the individual functions successfully migrated fully to remote working between March and June 2020, and again in its majority in October 2020 to date, thanks to the timely investments that were made in the capability, security and adaptation of procedures. The operational capability remains in place and standardised to cater for any public and staff health needs.

This early adaptation and organisation-wide technological capability allowed us to stay on course with our work plan for 2020, and as foreseen for 2021. It is unlikely that the pre-COVID- 19 way of doing things will ever be considered as normal again and, as the benefits of the enhanced supervisory technology capabilities, that the Authority will continue to invest in, are further embedded into our supervisory processes, these practices may become part of our standard procedures.

This Strategic Update is set within the evolving health context and assumes that both we, as an organisation, and the markets falling under our supervisory remit do not have to withstand any restrictions more severe and widespread than those imposed by the health authorities in March 2020. We will remain vigilant in order to ensure that our own operational continuity is sustained and continue to monitor developments in the markets we oversee and intervene as may be necessary.

The pandemic brought great and tangible uncertainty to most. Working through the COVID restrictions, the supervisory experience has shown us that we can:

- increase the efficiency of financial supervision – for example by carrying out remote onsite reviews;

- decrease the dependency on paper-based communication which delays interactions and communication;
- provide proportionate and suitable regulatory relief in order to afford flexibility to adjust to extraordinary external circumstances;
- adapt and better calibrate our regular and ad-hoc monitoring to evolving external risk scenarios from a conduct, prudential and financial stability; and
- enhance the agility with which we interact through an open line of communication with industry stakeholders to implement changes/ enhance monitoring required.

While the foreseeable future remains to a large extent uncertain, the Authority is committed and plans to continue:

i. supporting and facilitating the financial services sector's (namely credit institutions) function in channelling Government aid and other own independent initiatives to support and sustain, as much as possible, the local economy;

ii. closely monitoring the impact of the pandemic and resultant economic and social risks, vulnerabilities and disruptions on all regulated entities as they may develop over time, in line with guidelines and recommendations made by the European Supervisory Authorities and national authorities such as the Central Bank of Malta in order to ensure their sustainability and continued resilience. In this regard the Authority shall afford the regulated firms the flexibility the governing regulations allow for and seek to intervene if and as necessary if the circumstances were to call [again] for such further interventions;

iii. protect and inform consumers of financial services at all times of the developments that may be directly affecting the market and or their rights.

The up-to-date list of the regulatory and other supporting measures adopted and amended by the Authority can be found on our website.

2.2 Economic Context

Economic activity in Malta continued to expand rapidly in 2019 with real gross domestic product (GDP) growing at an annual rate of 4.7%. This positive economic performance, primarily driven by domestic demand, was also reflected in other key macroeconomic indicators, despite some early signs of imbalances building up within the property market. Unemployment levels remained low while government fiscal consolidation remained in positive trajectory during 2019.

The positive macroeconomic environment was inevitably disrupted in 2020, as a result of the COVID-19 pandemic. In a bid to contain the first wave of the pandemic, the Government implemented several restrictions which were accompanied by various fiscal initiatives directed to assist households and businesses that were directly hit by the pandemic. Both at EU and national level, very bold measures were implemented to cushion the impact and sustain economic activity. These were aimed to (i) contain the economic contraction for 2020, (ii) facilitate the recovery in 2021, (iii) assist borrowers' debt-servicing capacity, through direct grants and subsidies, and (iv) maintain financial sector soundness. Of note is that although measures taken are quite far-reaching, attention was given to strategic sectors such as the tourism sector and related others. What is certain at this stage is that, in the long run, it would be very difficult for any country, including Malta, to sustain these measures.

Economic forecasts for Malta hint to an overall contraction. In fact, latest European Commission (EC) projections published towards the end of 2020 indicate a negative economic growth of -7.3% for 2020 overall, with a likely moderate recovery in 2021 of +3.0%. The EC also projects a rise in unemployment and a return to government deficits and increased public debt. The Central Bank of Malta's projections similarly point towards a severe economic downturn generally.

Notwithstanding the economic improvements envisaged for 2021, the outlook for the year still remains uncertain. The first half of 2021 is expected to continue on the same path as that recorded towards the end of 2020, with a gradual improvement in economic activity expected once the COVID-19 vaccine distribution nears its end. In this environment, the stability of our financial system will continue to be monitored closely to detect possible emergence of any systemic events.

2.3 Financial Services Sector

The overall performance of the financial services sector during 2019, on aggregate, remained positive. Financial services operators were highly capitalised and above regulatory requirements, with no significant solvency difficulties recorded during the beginning of 2020.

Meanwhile, certain credit institutions had managed to further reduce credit exposures by undertaking de-risking initiatives on their lending portfolio and improving asset quality by targeting non-performing loans (NPLs). The buoyant economic environment at the time and Banking Rule 09/2019[1] requirements both played a conducive role in this respect. Complementing this were funds set aside by credit institutions as specific allowances to help absorb potential losses arising from NPLs together with their continued conservative lending practices. These practices were further supported by the borrower-based measures (BBMs) introduced since 1st July 2019.[2]

Overall, the financial services sector managed to weather the initial turmoil well. This was partly due to financial services operators entering the crisis in a financially sound, solvent and liquid position. Furthermore, the timely implementation of fiscal measures in tandem with micro- and macro- prudential policies were deemed to be conducive to safeguarding the stability of the sector, albeit inevitably certain vulnerabilities cannot be completely circumvented.

Indeed, credit institutions continued to support the economy through the channelling of funds towards COVID-19 impacted borrowers. Nevertheless, unexpected debt servicing constraints borne by borrowers during COVID-19, have led to new credit risk pressures which. in part, have diminished through numerous preventive measures such as tax deferrals and loan guarantees by the government, in conjunction with loan moratoria. These preventive measures play a key role in attenuating the impact on the real economy and alleviating some of the credit risk exposure. This notwithstanding, debt servicing capacity strains are expected to continue going forward with scale and impact depending on the prolongation of business disruptions.

Financial services operators continue to hold large liquidity buffers. This is reflected in increased holding of high-quality liquid assets which contributes to providing a shock-absorbing capability. To date, the liquidity position has remained relatively stable, although pressures intensified during the most acute initial phases of the pandemic, stabilising thereafter.

Although the banking sector remains profitable, profitability levels across institutions have significantly dropped. Looking forward, it is expected that COVID-19 disruptions will add further pressures on interest rates, further delaying the possibility of a return to a higher interest rate environment, owing to the increased need to support market sentiment. The resultant constraints are expected to leave a considerable strain on profitability, mitigated to an extent by government subsidies on interest costs linked to COVID-19 guaranteed loans.

[1] MFSA's Banking Rule BR09/2019 was amended at the end of 2016 to introduce the concept of a five-year non-performing loan reduction plan to be prepared by credit institutions that have a two-year quarterly NPL ratio exceeding 6%.

[2] Borrower Based Measures (BBM) set policy caps on residential real estate loans in terms of loan-to-value at origination (LTV-O) and stressed debt-service to income ratio (DSTI-O). The caps are differentiated based on borrower type, in line to CBM Directive number 16.

Economic recovery is expected possibly later in 2021.

The Authority will continue to monitor the situation for any early signs of systemic issues and liaise with the relevant institutions on possible regulatory responses. At both macro and micro levels the Authority will continue to follow ESAs' guidelines as they are applicable to the national market. Moreover, during 2021, the Authority is conducting a thematic assessment of credit risk.

We will also re-double our efforts to finalise our analysis of lending by non-bank financial institutions and non-financial entities to gain further insight into these activities, determine to what extent they can provide alternative lending options to the economy in case of need and determine whether further regulatory measures may be necessary to ensure that such activities are provided in a safe and stability inducing manner. Meanwhile we will continue refining our network analysis model as a tool for identifying and addressing any potential channels of contagion across the sector.

2.4 The European Policy Dimension

The European policy concerning financial services shapes the regulatory framework that the Malta based industry is subjected to. The way Malta implements EU regulation that is already in force and the Authority supervises the sectors falling under its remit are also aligned with the direction given the European Supervisory Authorities (ESAs). *See Supervision section below*.

The European Commission has started a new five-year political mandate on 1 December 2019 under the leadership of its new President, Ursula von der Leyen. Three overarching priorities are woven into the **Commission's** policy agenda 2019-2024: (i) sustainability/climate neutrality (under the new European Green Deal), (ii) digitalization and (iii) supporting the European economy. The COVID-19 outbreak in Q1 2020 has inevitably had a strong impact on these policy priorities – but it did not change the planned direction of travel: quite to the contrary, many of the planned policy initiatives now play a major role in the COVID-19 economic recovery efforts.

As part of the EU Recovery Plan, the European Commission also adjusted its Work Programme for 2020 in response to the unprecedented coronavirus reality. The adjusted Work Programme fast-tracks initiatives that support Europe's recovery, save lives and protect livelihoods. The Commission remains fully committed to delivering on its flagship initiatives, namely the twin green and digital transitions, which are key to relaunching the European economy. Malta's national recovery policy is envisaged to align with these EU pillars and objectives while participating in financing programmes that will help leverage both the launch and implementation of recovery measures.

The Recovery Plan: To help repair the economic and social damage brought by the coronavirus pandemic, kick-start European recovery, and protect and create jobs, the European Commission proposed, on 26 May 2020, a major recovery plan for Europe based on harnessing the full potential of the EU budget.

On 21 July 2020, the EU Council agreed on this recovery plan and the multiannual financial framework for 2021-2027, leading the way out of the crisis and laying foundations for a modern and more sustainable Europe. The size of Next Generation EU will be €750 billion, as proposed by the Commission. To ensure that the money is allocated to the countries and sectors most affected by the crisis, EU leaders agreed that 70% of the grants under the RFF will be committed in 2021 and 2022 and 30% will be committed in 2023. Allocations from the RRF in 2021-2022 will be established according to the Commission's allocation criteria taking into account the Member States' respective living standards, size and unemployment levels.

The Authority is, through Government, and, or the respective competent national agencies, seek to tap into the relevant funds and technical assistance programmes where these coincide with our strategic priorities and implementation plans.

i. EU Regulatory Initiatives and Developments

The EU Commission's 2020 Work Programme, as updated in May 2020, is translated into concrete initiatives which will then be negotiated and implemented in cooperation with the European Parliament and Member States. The Commission's priorities in the financial services sector notably include a revival of the Banking Union, Capital Markets Union project and a strong emphasis being put on Sustainable Finance, FinTech and the Action Plan for a comprehensive Union policy on preventing money laundering and terrorism financing (launched in May 2020).

The Commission also foresees a number of legislative initiatives, such as the potential review of Solvency II, including the recovery and resolution framework for insurers, the implementation of the latest batch of Basel rules via a review of the Capital Requirements Directive and Regulation (CRD/CRR), the review of MiFID II and MiFIR and the Benchmark Regulation, the review of the Non-Financial Reporting Directive and, for the first time, the Commission will attempt to directly legislate crypto assets as well as address cybersecurity concerns in the financial services sector.

A number of these initiatives and legislative proposals are already underway such as the Digital Finance Package published by the Commission on 24 September 2020, which includes Digital Finance and Retail Payments Strategies, and legislative proposals on crypto-assets and digital resilience (cybersecurity). Other initiatives of note that are expected during 2021 include a number of implementing acts further to the sustainable finance framework already adopted and a Renewed Sustainable Finance Strategy.

EU policy decisions have a substantial impact on the whole financial services ecosystem developed in Malta and therefore the Authority considers that it is crucial to remain on top of the game to adopt a proactive and productive approach in order to influence the international and European regulatory agenda. The Authority will remain actively engaged in policy dialogue, negotiations and follow up of EU institutional affairs and dossiers, both at the local and EU level so as to provide constructive feedback in the attainment of national positions in the area of financial services.

The Authority will align closely with the unfolding EU strategic and policy scenario to leverage on the benefits of the single market in financial services through smart implementation of legislative initiatives, strengthened cross-border regulation and cooperation, and increased utilisation of funding and technical resources available under various programmes.

ii. Brexit

The withdrawal of the UK from the EU, known as BREXIT, was concluded and entered into force after a series of tumultuous political negotiations, notably on the UK side, on the 31 January 2020. The transition (sometimes called the implementation period) ended on 31 December 2020.

The long-awaited "Trade and Cooperation Agreement", that was negotiated between the UK and EU during the transition and which governs the relationship between UK and EU as from 1 January 2021, was eventually concluded on 24 December 2020, and published on 26 December.

Although the financial services sector is one of the UK's most significant industries, it is only covered briefly (pp. 107-111 of the Trade and Cooperation Agreement and page 2 of the Declarations). The more general provisions relating to services, and related areas such as business visas, will also be relevant to financial institutions.

In essence, the EU-UK agreement provides no new transition period for financial services, nor any new arrangements to replace the passporting rights. This leaves both parties to the agreement to address matters of access in financial services through unilateral declarations of equivalence under existing equivalence regimes contained in EU and UK law as well as any new ones that might be introduced. It does, however, address certain matters ancillary to equivalence, for instance on combatting money laundering and the application of global standards such as the Basel Rules. This means that as of 1 January 2021, and until any further measures are adopted, passporting rights have ended and what the industry has considered as a hard Brexit for financial services.

Possible Enhanced Equivalence for financial services in the future

"Enhanced equivalence" involves: (i) both the UK and EU granting "equivalence" to each other under their respective regulatory frameworks, recognising the (as at 2020) identical nature of financial services regulation in the EU and U.K.; (ii) introducing greater levels of cooperation and coordination around the development of new laws and processes for a possible withdrawal of equivalence; and (iii) "filling the gaps" in the equivalence framework, such as for commercial banking and primary insurance.

A high-level Declaration includes the following as follows:

"1. The Union and United Kingdom agree to establish structured regulatory cooperation on financial services, with the aim of establishing a durable and stable relationship between autonomous jurisdictions. Based on a shared commitment to preserve financial stability, market integrity, and the protection of investors and consumers, these arrangements will allow for:

- *bilateral exchanges of views and analysis relating to regulatory initiatives and other issues of interest;*
- *transparency and appropriate dialogue in the process of adoption, suspension and withdrawal of equivalence decisions; and*
- *enhanced cooperation and coordination including in international bodies as appropriate.*

2. Both Parties will, by March 2021, agree a Memorandum of Understanding establishing the framework for this cooperation. The Parties will discuss, inter alia, how to move forward on both sides with equivalence determinations between the Union and United Kingdom, without prejudice to the unilateral and autonomous decision-making process of each side."

This commitment in the Declaration could presage such a model (though it does not require such an outcome). Indeed, on the 26 March it was announced that the EU and the UK signed a Memorandum of Understanding to create a framework for voluntary regulatory cooperation. It is yet to be seen whether this MoU will lead to any formal agreement.

The Authority will continue to monitor developments in this area as they may evolve. Although some of our licensed entities are connected to the UK economy, the number is small and the impact of the current EU – UK agreement, or any eventual negative outlook of the UK economy is not expected to affect the stability of the Maltese financial system.

Notwithstanding, the MFSA will remain open to working with the UK after January 2021 and will continue to seek to maintain a good working relationship with the UK Supervisory Authorities.

3. Sharpening Our Focus on Sustainability

As stated in our introduction, we shall remain aligned with the Strategic Priorities set in our plan for 2019-2021. However, after taking stock of the progress we made in 2019-2020, and in recognition of the current and evolving uncertain and challenging operating landscape, the Authority considers it necessary to re-orient our focus towards sustainability, the creation of long-term value and continued stability. This will also set the tone for the next strategic period starting 2022.

By sustainability, we primarily refer to the economic and financial sustainability of the Authority, the sector and the entities we regulate. COVID-19 has shown us that strategic and operational resilience can be built if we keep sustainability as the core objective as we address the current challenges and prepare for the future. Economic sustainability also refers to sustainable growth in a manner, at rates and in areas that are relevant in scope to the evolving market environment and our capabilities.

As we seek to recalibrate our implementation plans in this context, a degree of uncertainty remains where it relates to the evolving and duration of the impact of the COVID-19 pandemic on the macro-economic environment and our markets. The Authority shall continue to monitor this environment and remains flexible in its implementation without compromise on the sustainability and stability objectives for the sector. In pursuing these, we shall seek alignment and synergies with the EU, other national policies and programmes with a view to both contribute and benefit from these.

The Authority is recognizant that a stable and resilient financial services sector is an essential **economic infrastructure not just for this industry's sustainability but also for the recovery of the** rest of the economy. We are therefore duty-bound, together with other competent authorities, to ensure that the system supports itself as a main economic contributor and as a conduit for other equally important sectors and society.

The various policies and action programmes of the European Union and European System of Financial Supervision (ESFS) will shape the regulatory environment which we will actively participate in. As parties in the relevant fora, the Authority will also seek to collaborate with peers and interlocutors to support economic recovery and resilience building in the member states, including Malta. This will also essentially encompass sustainable finance which is an important lever in the delivery of sustainable development and recovery in the Union.

It is with this understanding that the Authority regroups and pursues its set strategic priorities under three main non-competing and mutually enabling key areas that are considered, as we move forward, to be conducive to sustainability and long-term value creation. These are:

1. Supervisory Transformation
2. Fostering a Stronger Compliance Culture
3. Innovation and Growth

3.1 Supervisory Transformation

The transformation process we embarked on is fundamentally changing the way we work. It will help us become a more efficient and effective supervisor in the longer term. At this juncture the quality and effectiveness of our supervision remains the sharpest tool in the box to ensure that the sector remains stable and sustainable while enjoying a good standing and reputation with a view to consolidating Malta's position in the sector as a jurisdiction of choice. We made significant progress and recognise that the completion of our transformation process is crucial to this end as we consider how we prioritise and deliver the outcomes we seek in 2021 and beyond.

During these unprecedented times, and apart from the regular and ad hoc oversight which forms part of the planned supervisory work, the supervisory teams will keep a closer eye on the sectors for signs of stress amongst entities or indeed whole sectors in order to ensure continued stability and timely intervention should the need or indeed risk materialise.

The Authority's overarching objective, in this core area, is to maintain trust by targeted, transparent and risk-informed supervisory oversight, interventions and enforcement actions. We shall remain continuously vigilant of the risks that lie ahead/or emerge over time and take proactive and timely measures to mitigate them. Our risk appetite as expressed in our Risk Statement published in January 2020 has not changed and we shall continue to monitor and strive to manage new evolving risks with great attention.

All our cross-sectoral Strategic Priorities converge and contribute towards better performance under this core area and that our work in the first half-term was most intensive in building the essential structure, capacity and capability (including decision making organs) to deliver on these priorities.

Our Supervisory Priorities for 2021 have been published in December 2020. This detailed document identifies five cross-sectoral priorities, namely: [i] Corporate Governance and Culture; [ii] Financial Crime Compliance; [iii] the impact of COVID-19; [iv] ICT Risk and Cybersecurity; and [v] FinTech and Innovation. These are complementary to the investor protection, market integrity and financial soundness objectives of financial regulation, which remain at the forefront of the Authority's agenda. Building on the cross-sectoral priorities, sector-specific areas of focus have also been identified. The priorities do not encompass the entire spectrum of work performed by the MFSA but document the themes on which supervisory focus is to be expected by regulated entities during 2021.

Building on the positive industry feedback received for MFSA's Supervisory Expectations publication in 2019, the Authority also published, the first in a series of documents: The Nature and Art of Financial Supervision- Banking – Credit Institutions. This publication describes how the Authority regulates and supervises the Maltese banking sector, specifically credit institutions. It provides an overview of supervisory work conducted in 2020 and identifies the main findings and risks on the basis of which credit institutions are invited to self-assess their compliance frameworks and benchmark themselves against the recommendations being made and subsequently address any weaknesses identified, as appropriate and applicable to the individual institution.

i. Independent Structure and Governance

One of our cross-sectoral strategic priorities, Governance Culture and Conduct, involved changes to the Authority's own organisation and governance structures. This area was given primacy over other areas and was largely completed by end 2019 in order for the organisation to be in a position to implement the other substantive and interdependent changes.

Since Parliament approved the institutional adjustments necessary with the amendments to our founding Act in 2018 and 2019, we have completed the restructuring of the Authority's directorates and functions with the same supervisory logic in mind and established the decision-making and governance framework with the setting up of the Executive Committee, the Regulatory Committee and Risk Management and AML/CFT Committees.

The Authority's renewed ethos is to be synonymous with high quality, risk-based supervision of the financial services sector in Malta which guides our operational structure and logic, and drives our resources, processes and culture in order to deliver the outcomes we seek. In the first half term we have focused heavily on combatting financial crime measures and re-engineering of our supervisory processes (*see (ii) below*), in recognition of their immediate relevance to the continued soundness and integrity of the sector.

Our supervisory logic is built on a risk-based, integrative model that addresses the whole life cycle of an entity from pre-to post-authorisation. Our core operations and support functions are structured to follow the same approach, namely a less fragmented and simplified supervisory interaction with supervised entities with a focus on enhanced risk management and mitigation. Where enforcement action becomes necessary, the Authority aims to take more timely and effective action in order to contain and mitigate the risks emanating from regulatory breaches and in due course strengthen the compliance culture amongst our regulated entities.

The next important step in ensuring the Authority's own operational sustainability is the revision of its Fees Policy which is necessary to provide further credence to the *effective* functioning of the MFSA as the competent supervisor of the sector and its impartiality in line with commitments made with international organisations, namely, International Monetary Fund (IMF) and MONEYVAL.

In order to establish the basis for this industry funding model, it was necessary to adopt a longer term, five-year business plan which sets out our goals and supervisory action areas for the term and how funds are planned to be allocated during the period. The new fees, which will be based on the *cost recovery model* and the *user-pays-principle*, will finance the MFSA's operations. Until its launch and progressive implementation over a number of years, which has, at this stage been postponed to buffer the pandemic impact on the sectors, the government is committed to finance the operational shortfall in the Authority's revenues as well as the capital expenditure being made to transform and augment capacity and capabilities in line with the Strategic Plan.

ii. Enhanced Capacity and Capability

The delivery of strategic outcomes is dependent on the capacity and capabilities we employ towards the work areas we prioritise. In support of this, during 2019, we embarked on the right sizing of the Authority's human resource capacity in our core structures and operations, namely the supervisory functions, which also included the addition of the Financial Crime and Compliance (FCC) function and of the Enforcement Directorate which incorporated and strengthened the Due Diligence function. As at the end of 2019 staff complement stood at 378 (2018: 306) while at the end of December 2020, the number of employees had reached 430. The total staff complement is expected to stabilise at 450 throughout the period 2021-2025.

Staff competencies continue to be enhanced and strengthened by means of targeted and intensive training programmes in sectoral and cross-sectoral disciplines. In 2019, over ten thousand hours of training in Malta and abroad were provided. We also outsourced expertise through the engagement of external consultants to augment in-house resources, assist in the upskilling of staff in the areas of AML/CFT supervision and provide the necessary regulatory support. This type of support has been tapered off as our staff reach the required level of expertise. In order to better plan for current and foreseen training needs and programmes, we conducted a Training Needs Assessment of all supervisory staff.

The Financial Supervisors Academy (FSA) which was one of the projects foreseen by the Strategic Plan to support this priority, started to provide training in July 2020 after it obtained authorisation from the National Commission for Further and Higher Education (NCFHE) as a training centre.

This was the first step for the FSA, which was officially launched in Q4 2020 with more structured and ad-hoc supervisory training programmes to be provided by in-house and outsourced reputable experts during the coming months and 2021. Our plans for the FSA which have already started being implemented, include its further development, structuring and resourcing in order to qualify for a higher educational institution accreditation in the short to medium term as well as the opening up of its training programmes (whether physical and/or web-based) to other supervisory authorities' staff and industry.

iii. Digitalisation

We consider the planned digitalisation of our processes to be a critical lever, which, together with our human resources, will provide unmatched capability to drive both efficiency and effectiveness of our supervisory efforts in line with our priorities.

With this in mind, in 2019, the MFSA launched the Technology and Data Management Strategy. It is designed to cater for the digitisation and digitalisation of our operations over a period to 2025 to enable a more harmonised, data-driven and risk-based supervision. In recognition of the importance of data-driven supervision, the technology team was restructured to enhance technology governance, delineate better functional expertise in IT operations and strengthen information systems management and development. A dedicated Data Management & BI function was also created.

In 2019 and during 2020, new operational systems supporting the core functions were launched or upgraded with several fundamental products; the entire database system was upgraded and a new Business Intelligence platform was set up. In addition, the IT infrastructure and end-user equipment were upgraded to enable employee mobility and teleworking without compromising on security, confidentiality and data integrity. This proved to be timely and critical in the successful transition to remote working in March 2020 and thereafter, due to COVID-19 related restrictions.

As planned, significant investment has gone into the implementation of a new data warehouse and a new BI layer, investment in new Business Support Systems, and further modernisation of current IT infrastructure and in Information Security. The implementation focus has now shifted to improvement of the records management system as well as other ongoing work on supervisory cycle management. The journey continues in line with our objectives 2025.

iv. Combatting Financial Crime, Money Laundering and Terrorist Financing

With the FCC team leading this function, the protection of our financial system from financial crime money laundering and terrorist financing (ML/TF) will remain an overarching, cross-sectoral supervisory priority and critical to our long term sustainability as we implement the requirements of new directives, continue to embed and update AML measures in every supervisory facet of our operations, and normalising the higher level of scrutiny and holistic risk management in our everyday work and across the life cycle of the regulated entity. We will also continue to mainstream our coordination across internal functions and processes and with that of other national institutions, namely the NCC (national Coordinating Committee on Combatting Money Laundering and Funding of Terrorism), the FIAU and others.

As the function, knowledge and systems mature, we will be maintaining a more proactive stance to detect and manage any emerging risks and threats to ensure the integrity and therefore stability of the system. We also urge the industry to, like us, keep up to date in their monitoring of emerging threats in their product and geographical markets, including reports published by international organisations like FATF and **the recent** "Money laundering and terrorism financing trends in MONEYVAL jurisdictions during COVID-19 Crisis."

v. Governance and Conduct Supervision

The Authority places a lot of importance and effort in ensuring that regulated entities and individuals conduct their business in compliance with the highest standards of governance and in line with applicable regulatory requirements. It is for this reason that the Compliance perspective of this strategic priority and others will be given prominence in the remaining term and thereafter *(see Section 3.2 below)*.

Strong emphasis will continue to be made on Trustees and Corporate Service Providers: In 2019, we have consulted and proposed legislative changes to the Corporate Services Providers Act (Cap. 330) with the aim of raising the standards and providing a coherent and proportionate market-wide access framework for this service activity. Implementation will commence with the entry into force in April 2021 and is expected to be completed by 2022 (expiry of the transitional process to allow for alignment of all the sector).

During 2019 and 2020 we have also implemented changes to the Trust and Trustees Act, launching and fully implementing the Trust Ultimate Beneficiary Owner Register (TUBOR) and following this up with supervisory and enforcement action focused on the timeliness and quality of reported data.

Generally, and across all sectors falling under our remit, we shall continue to seek a higher level of governance by entities and for us to deliver robust supervisory judgements. We shall **communicate the Authority's expectations (and any shortcomings) effectively to licen**se holders. **In cases of a licence holder's failing,** the Authority will continue to take timely and effective disciplinary action which is directly related and proportionate to the regulatory risk presented by the breach itself (such as to protect or prevent further detriment to consumers).

At each sectoral level, we will continue to pursue our drive towards improved efficiency and effectiveness in our processes and addressing the risks and challenges, notably those related to AML/CFT, financial stability and others as they emerge as a result of the COVID environment or otherwise. Our commitment to greater accountability, improved communication with our stakeholders and the enhancement of consumer trust remains at the top of our agenda for the remaining period of this strategic term, and beyond, in all sectors falling under our remit.

vi. Supervisory Processes' Re-Engineering

In order to raise our regulatory and supervisory standards, and in line with our focus on the whole life cycle of an entity all authorisation, regulatory and supervisory processes are being re-engineered and streamlined in order to ensure consistency with our risk-based supervision modelling and critical work and data flows across all sectors. Our goal is to ensure that our processes are systemically consistent across all sectors in both objectives pursued and outcomes sought.

Substantively, apart from the harmonisation across sectors, the processes are integrating all supervisory requirements/elements concerning governance, ML/TF, soundness, fitness and propriety, prudential and other relevant requirements with expert input from all concerned functions.

Before the end of 2021 and progressively thereafter, supervisory processes will become more digitally centric and the convergence of risk modelling frameworks will be completed as we aim for data (quantitative) risk driven supervision for all sectors. This progressive integration will lead to more efficient processes, from authorisation to reporting and supervisory interventions and in-house potential for inter-operability between functions; thereby streamlining risk management processes and effectiveness.

vii. Risk management and Integrated Risk Modelling

In 2019 the Authority has revisited its Risk Management Framework in the light of the national and sectoral risk assessments (SRMs) conducted over the previous two years which are kept continuously updated. Following this, in January 2020, we published our Risk Culture and Risk Appetite Statements, reflecting our drive to position risk management at the heart of our supervisory strategy, resources and processes. The aim of these statements was and remains to better identify, evaluate, manage and communicate the Authority's risk approach and acceptable risk thresholds.

During the same period and in line with the said statements, the risk models and process of each function and supervised sector, which traditionally addressed prudential and conduct risks, were harmonised and integrated with the AML/CFT risk assessment elements.

Supervisory programmes and their intensity are driven by the SRM and would start with a sectoral regulatory assessment on the basis of which entities are ranked and supervisory teams allocate time and resources to those entities that display weaknesses and, or failures in material risk areas such as: internal governance and systems and controls. Any weakness, or failures will be flagged/noted and used to update the entity's risk profile which, when this relates to the AML/CFT area, is also shared with the FIAU.

In June 2020, we published a document articulating the Authority's approach to Risk Based Supervision which serves mainly to explain our risk-based approach to supervision, whilst clarifying how safeguards against financial crime risks have been integrated in the process. It mainly covers supervision but also authorisation processes, cybersecurity and other regulatory areas that are driven by this approach.

Going forward the Authority will continue to strengthen and refine the data inputs and parameters underpinning all levels of its supervisory risk model allowing for improved trends analysis and vulnerability assessments related to stability and soundness, governance and risk management practices, duty of care towards consumers, money laundering and terrorist financing risks, cybersecurity risk and adverse reputational impact at entity, sectoral and cross-sectoral levels.

viii. Authorisation Process - Service Charter

The authorisation process is a critical part of the Authority's supervisory cycle, during which it ensures that applicants applying to be authorised, meet the required standards criteria and will be able to continue meeting them on an ongoing basis.

As part of the re-engineering of processes *(indent above)* and also as part of the ongoing initiatives to raise its service standards to the industry, the Authority shall be issuing a Service Charter. The issue of such document, which had been postponed by the Authority during 2020, both in view of recent exceptional developments and also in view of the ongoing re-engineering and digitisation of processes being undertaken by the Authority, is now expected to be published in the course of 2021.

The Service Charter is aimed to be a starting point when an applicant is considering applying for authorisation. It also aims to facilitate the authorisation process, by engaging with applicants, providing guidance to firms on how applications are processed by the Authority and by setting out our regulatory standards expected in this respect.

In particular, it sets out the Authority's timeframe commitments for the processing of certain applications in which the Authority intends to revert to applicants, as well as the timing that applicants are reasonably expected to revert to the Authority, during the application process.

Besides being aligned with the revised processes, the Charter will be complementing the Authority's new application forms. These forms will constitute a critical part of the process and artefacts re-engineering project which underpins, together with other initiatives such as the Charter itself, the Authority's objective to simplify authorisations, by streamlining current processes and achieving a more standard and efficient authorisation process.

In practical terms, internally, applications will also benefit from enhanced coordination across sectors that will steer the application for the Service Charter. With this in mind, the MFSA has set up an Authorisation Forum composed of the team leaders of each authorisation team. The Authorisation Forum serves to drive discussions in relation to a number of important projects that the MFSA is embarking upon, such as a revised Authorisation Process Flow, the Authorisation Service Charter, the integration of the due diligence function within the Authorisation process, the new application forms which will be rolled out to the market, as well as other key initiatives, such as the MFSA's risk appetite in relation to Authorisations. These projects are aimed at streamlining the authorisation process whilst ensuring that regulatory standards are always maintained, and separate communications are planned to be issued in this regard, in due course.

ix. Cybersecurity and Resilience

Within the COVID realm of social distancing and remote working that restricted the face-to-face interactions of both the industry with its clients and the Authority with its regulated entities, the interaction via electronic means, whether through closed and, or open systems/platforms/channels, brought about new opportunities and challenges. As a sector that is facing significant disruptions by technological advancements, cybersecurity remains a critical priority in order to ensure operational resilience, exploitation of benefits and proper mitigation of risks.

The Authority has carried out a study to assess the level of cyber resilience across the sector based on feedback provided by representatives of banks, insurance undertakings and investment services providers who participated in the 'Cyber Risk Questionnaire' circulated in April 2020. The study enabled the Authority to better understand the local cyber risk landscape and measures adopted to prevent and mitigate this risk.

In January 2021 the Authority published a document on ICT Risk and Cybersecurity outlining the applicable legal and regulatory framework, and the work of the MFSA's Supervisory ICT Risk and Cybersecurity function which was set up during this strategic term. It also highlights the main observations made by the function through supervisory interactions conducted over the past year, and clearly sets out the MFSA's expectations in this area.

Within this context, during 2021 and beyond, the Authority will continue to, amongst other things, upgrade and update supervisory policies and processes (remote inspections/ pre-authorisation) while encouraging digital transformation and adoption of best practices by regulated entities.

The Authority aims to engage more and more in a dynamic exchange of knowledge, encouraging cooperative efforts and industry initiatives and promoting interoperability and cross-sectoral market response platforms, leading to increased resilience and generate economies of scale.

x. Enforcement

As foreseen in the organisational restructuring outline included in the Strategic Plan, the Enforcement Directorate, set up in April 2020, is vested with two important functions: the Enforcement function which has an investigative and an enforcement role and a Due Diligence function with the responsibility of ensuring that there is consistency in the application of the due diligence process across all sectors regulated by the Authority.

The Enforcement function is tasked with conducting investigations of licence holders who have or are suspected to have committed serious compliance failures, serious misconduct, market abuse or any other serious breaches of the financial services law. It furthermore investigates the actions of persons carrying out financial services activities without having the necessary licence or authorisation. While performing its functions the Enforcement function adheres to certain principles to ensure that all investigations are conducted in a manner which is fair, transparent and proportionate and that investigations are conducted in the most efficient way through a risk-based approach. Where breaches are identified, the Enforcement directorate is also responsible for making recommendations to the decision-making body within MFSA responsible for taking enforcement action.

The Due Diligence function is responsible for performing probity checks on directors, shareholders, management, key functionaries and all relevant legal and natural persons behind regulated entities so as to ascertain that these individuals are of good repute as part of the wider Fitness and Properness Assessment. Individuals are subject to a risk rating and are subjected to ongoing due diligence on a regular basis. The checks performed throughout the lifetime of a licence include sanctions screening, PEP screening, and adverse media screening.

The work on the enforcement and due diligence functions is greatly assisted by the data driven supervisory methodologies and risk modelling driven by a data governance framework which will continue to be greatly enhanced with the new BI systems to be installed in 2021 onwards. This is reinforced by significant advances and secured closer ties with other regulatory bodies, locally and internationally, whilst additional tools have been procured so as to screen individuals and entities more effectively.

While the Authority seeks to foster a more positive compliance culture in the industry and will continue to facilitate the shift to such higher levels of governance and compliance, it has continued to show its willingness to act when entities fail and breach regulatory requirements. With effect from April 2020, the Authority is publishing a monthly Supervisory and Enforcement Effectiveness Dashboard. This is apart from the publication of the regulatory measures on our website. As can be seen from the Dashboards published so far, the enforcement action taken by the MFSA in 2020 has more than doubled when compared to previous years with strong dissuasive action taken for the more serious breaches to serve as a strong future deterrent not only for the person against whom action was taken but for others as well.

The Authority is issuing a number of publications relating to enforcement, including the Authority's approach to Enforcement as well as a publication targeted at consumers. These publications will also include a series of anonymised past investigations from which it is believed that the industry can extract some benefit and lessons learnt. This will also assist supervised entities, together with other initiatives being taken under the Compliance key area and increased positive compliance culture, to make it possible for them or their advisers to self-assess their level of compliance.

3.2 Compliance

The Authority is well aware that compliance is becoming an increasingly complex domain and, from responses we receive to published consultations, and feedback we receive during our supervisory work, it is evident that while raising standards is generally welcomed, some entities are often lacking in compliance know-how, structures and frameworks which they may attribute to doubtful cost/benefit of time and burden to size and, or nature of their business.

However, we strongly believe that as the financial services sector is an intensely regulated sector globally, our long-term sustainability and growth within the same global system very much depends on reputation and trust built by equal measures of positive performance of our supervision and the sector's compliance. This is the rationale why compliance is an equally important pillar of our sustainability focus.

Our focus on compliance will seek to further facilitate and nurture a more compliant culture and development of holistic compliance mechanisms within regulated entities. Nearly all institutions provide some level of training to employees, but a culture of compliance goes beyond a one-time mandated training. Compliance is a characteristic of high standards of self-governance and embeds compliance into everyday workflows and sets the foundation and expectations for individual behaviour across the whole supervised entity.

We firmly believe that a compliant culture is not a burden nor a cost but a must to enhance/improve profitability in a sustainable manner, including through better quality business from higher quality investors and operators. While entities may complain about the costs of compliance, non-compliance can actually be more costly and costs do not only refer to fines that may have to be settled in case of a breach. When constructing/reviewing their regulatory risk management strategies and procedures, regulated entities should equally take account of business disruption, productivity loss and revenue loss too. Recent experience in Malta and evidence from other markets suggest that the biggest cost of non-compliance is actually that of business disruption and lost opportunities for the entity itself rather than any fines or penalties applied by the regulator. When found to be non-compliant, entities are required to implement compliance changes before being able to resume or take on new business.

i. Corporate Governance Framework

In February 2020, the Authority published a consultation document on the proposed revision of the Corporate Governance Framework. It set out several proposals for the promulgation of a comprehensive principles-based Corporate Governance Code which will be applicable to all entities authorised by the Authority and Listed Companies, which would then be supplemented by sector-specific rules and complementing guidance notes. We welcomed the many constructive responses received which are being reviewed and considered with the aim of being taken into account in establishing the Authority's position. We will be engaging more directly with our stakeholders before the proposed Code becomes mandatory in the course of 2021.

Following on from the updating of the Corporate Governance Framework, and in line with the general updating of the supporting structures of self-governance, the Authority believes that compliance needs to generally embrace **the 'three lines of defence' model** move towards more intelligent and proactive governance models supported by external expertise where necessary.

ii. Enhancing Professional Standards

The Authority believes that the compliance culture and quality shift require, amongst other things, the enhancing of professional standards in the regulatory field of persons operating, advising and governing licensed entities. For this reason, we will seek to develop sectoral knowledge further and facilitate compliance through the sharing of expertise through our monitoring and interventions and through a series of timely communications (circulars) which for the coming months includes: *'Responsibilities of Licence Holders who are subject persons'*; *Modernising Maltese Compliance Culture'* and *'Professionalising MLROs and Compliance Officers – new requirements'* (a joint initiative between FCC and Conduct Supervision).

iii. Raising the Bar: Implementation of the New CSP Regulatory Framework

As foreseen in our Strategic Plan, in October 2019 we published a consultation document "Raising the Bar for Company Service Providers" and in April 2020 after considering the healthy and numerous responses and input received from stakeholders, we published the Feedback Statement on the proposed reforms to the CSP regulatory framework.

In December 2020, the Authority launched another consultation process focusing on specific new areas of the proposed updated Rules for Company Service Providers. The updates follow the amendments made to the Company Service Providers Act (Cap 529 of the Laws of Malta), which was passed by Parliament as Act No. L of 2020 and published on 13 November 2020. The Act and the new Rules came into force on 16 March 2021.

The revised regulatory framework introduced a market entry framework and rigorous screening mechanism for persons providing company services who previously fell outside the scope of the Act, while also introducing a new classification system for company service providers based on the nature, scale and complexity of the services offered. The legislation has also moved away from the concept of registration to authorisation for all company service providers.

We are looking forward to continuing to closely engage with these practitioners (existent and newly authorised CSPs) through a number of targeted initiatives in 2021 to order to raise the standards of operation and governance of the sector, and those of the sectors they service.

These initiatives together with the revised Corporate Governance framework (2021) aim to foster a more compliance-driven operating environment, supported and guided by the **Authority's Supervisory Expectations that provide useful** guidance concerning risks and weaknesses that need to be addressed and the compliance response expected from regulated entities.

iv. Studying Compliance Costs

The Authority is conscious that in recent years the number of requirements with which the industry has to comply has increased. For this reason and in order to better understand the burden borne by the industry, we will conduct a study to quantify the compliance costs emanating from financial services regulation in every sector falling under our remit during 2021.

On our part, we will continue seeking to exploit the benefits from investments being made in human resources and technology to yield more efficient and effective supervisory interventions *(see above under Supervision)* such as: regulatory reporting, joint supervisory inspections, FinHub and streamlining and digitalising administrative procedures. We will also continue with the frequent informative communications with the industry.

While we shall remain conscious not to impose undue supervisory burdens, it is the sole responsibility of the regulated entity to run its business ethically and compliantly at all times. Our aim in this priority area is to foster a compliance environment and culture in which the regulated entities stay ahead of the regulatory and compliance curve and in so doing, minimise, cost, time and effort.

3.3 Innovation and Growth

The Authority recognises that in order for the industry to remain economically sustainable in the long term, relevant and well-positioned within the environment it operates, it must be proactive and not lag behind in harnessing the benefits of innovation, shaping and aligning with new EU policy initiatives and industry best practices and standards. In view of the economic uncertainties and the criticality of Supervision and Compliance in the current and foreseen scenario, we shall direct our focus on areas that contribute to the further stability, risk mitigation and competitiveness of the sector.

For the purposes of this Strategic Update (end-2021) horizon, the initiatives under this key area include those that have already commenced or contribute to the implementation of national and EU policy initiatives, again with a renewed focus on building resilience and contributing to the long- term sustainability goals for the sector and wider economy.

i. FinTech Strategy

In its Vision 2021, published on the 31 January 2019, the Authority identified innovation and technology as one of its strategic objectives. It is within this context that the MFSA published its FinTech Strategy in May 2019, which aims to support the financial services industry to harness the opportunities presented by technological innovation which has gathered significant pace in recent years. The Fintech Strategy identified six strategic pillars being, (i) Regulations, (ii) Ecosystem, (iii) Architecture, (iv) International Links, (v) Knowledge, and (vi) Security, which are central towards the creation of a holistic long-term approach to catalyse innovation, growth and competition in the financial services sector, whilst ensuring robust investor protection, market integrity and financial soundness.

Following a consultation process on Pillar 1 - Regulations, in January 2020 the MFSA issued Pillar 1 – Regulations Feedback Statement which proposed the framework governing the MFSA FinTech Regulatory Sandbox ('the Sandbox'). Subsequently, the Sandbox was launched in July 2020 with the publication of Rule 3 ('the Rule') under the Malta Financial Services Act. The Sandbox provides for a regulatory environment where FinTech operators may test their technology-enabled financial innovations for a specified period of time within the financial services sector, under certain prescribed conditions. The aim is to foster and ensure sustainable financial innovation through regulatory certainty and knowledge sharing.

The Authority has also been actively following EU and other international fora and building international links as set out in our FinTech Strategy, Pillar 4 – International Links. Indeed, the MFSA has recently become a member of the Global Financial Innovation Network ('GFIN') with the aim to collaborate with other members, specifically international national competent authorities, in shaping the regulatory environment that is conducive towards innovation. The MFSA has also contributed directly towards the discussions at EU level towards the development of the Digital Finance Package. The package includes, (i) the Digital Finance Strategy (ii) Markets in Crypto-Assets Regulation ('MiCA') (iii) Digital Operations Resilience Act ('DORA') and (iv) the Retail Payments Strategy.

Meanwhile together with the Malta Digital Innovation Authority (MDIA) the MFSA has published a Consultation Document on ITA Certification in relation to Virtual Financial Assets Service Providers.

Going forward, in order to continue with the development of the Strategy, the Authority will continue to engage with private and public stakeholders whilst enhancing its internal capacity in relation to technological and economic developments. The MFSA will also seek to identify the current strengths and challenges within the Malta based FinTech ecosystem in order to realign the Strategy with the current priorities and the Digital Finance package's objectives with the aim to drive the sector further.

Furthermore, the Authority will also continue to actively contribute to the discussions at international level whilst engaging with other EU Member States to develop a regulatory environment which fosters and enhances the European digital single market for financial services.

ii. Asset Management Strategy

Over the last decade, Malta's success in attracting international asset managers and fund vehicles has been driven by key pull factors that have enabled the sector to grow from a largely domestic one, to an industry featuring international operators and an established funds base. Over the recent years, the overall growth of the sector has however been impacted by various developments. In this respect, the Authority is committed to strengthen Malta's position as an asset management jurisdiction of choice and has in fact placed asset management as a key strategic priority.

The Strategy consists of proposed initiatives for both asset managers and fund structures. The Authority is, in this respect, aiming to address critical issues encountered by practitioners when dealing with existing regulatory frameworks for asset managers and funds, as well as issues arising in relation to the MFSA internal processes.

Furthermore, the MFSA is also exploring new strategic initiatives that may be adopted by the Authority which are aimed at helping the growth of the local asset management industry.

Whilst work in this area has already commenced in 2020, going forward, the Authority intends to also issue a Discussion Paper seeking industry feedback on the identified proposals, in order to take this strategy forward and enable further sustainable growth in this sector.

iii. Capital Markets Strategy

Access to finance and a well-functioning capital market, are important pillars for Malta's economic growth and as stated in our Strategic Plan, we are in the process of formulating a new Capital Markets Strategy for Malta which is aimed at (i) fostering growth in the local capital markets; (ii) future-proofing the applicable regulatory framework, and (iii) ensuring effective investor protection and market integrity.

The strategy's development and implementation are based on five distinct yet interdependent pillars, namely [i] the establishment of the Authority's risk appetite for the sector; [ii] enhancing the legal framework to improve efficacy, efficiency and effectiveness; [iii] strengthening the Sponsors' Regime; [iv] building supervisory capacity; and [v] setting out a strategy for investor education; with the aim of encouraging fair, efficient and transparent capital markets.

Our work on this project has progressed well and after the commencement of an educational campaign targeting retail investors and the completion of the Authority's risk appetite during 2020, a consultation paper on a number of proposed changes to the legislative framework governing the application for the review, scrutiny and approval of a prospectus and the application and conditions for admissibility to listing was issued on 29 March 2021. This will be followed by further work on amendments to the new Capital Markets Rules covering continuing obligations during Q2-Q3 of 2021 and on the Sponsors' regime which is planned to be rolled out in Q4 of 2021.

In parallel, in September 2020 the EU Commission published the EU Capital Markets Union New Action Plan which proposes sixteen legislative and non-legislative actions with three key objectives:

i. support a green, digital, inclusive and resilient economic recovery by making financing more accessible to European companies
ii. make the EU an even safer place for individuals to save and invest long-term
iii. integrate national capital markets into a genuine single market

The Authority will be actively participating in the relevant EU discussions in this area as well and will keep an open dialogue with our regulated entities of developments that are likely in 2021.

iv. Sustainable Finance

Sustainable finance (together with Digitalisation) is increasingly taking centre stage in key financial policy fora and is considered as a key catalyst for economic recovery at EU and national levels. In our Strategic Plan, we had already recognised the increasing importance of sustainability aspects in finance and the EU Commission's workstream in this area.

In 2019, the three EU proposals for regulations that were published in 2018 were adopted, and namely: the Taxonomy Regulation; the revision of the Benchmarking Regulation; and the Disclosure Regulation. In December 2019, the Commission also published the European Green Deal. In it the Commission announced that it will present a renewed sustainable finance strategy in Q3 2020, focusing on a number of actions, including making it easier for investors to identify sustainable investments and ensuring that they are credible. The European Green Deal Investment Plan of 14 January 2020 announced that the Commission will establish an EU Green Bond Standard (GBS) on which there was a targeted consultation (closed October 2020).

Within this context we shall continue to engage with stakeholders, increase awareness and generally prepare for the coming into force of the three EU Regulations, starting with the Disclosure Regulation which enters into force in March 2021 concerning which we have issued a number of informative circulars and conducted data collection exercises amongst sectors.

Our Financial Stability function has also included the exposure of Maltese financial institutions to the Climate Policy Relevant Sectors (CPRS), also referred to as climate sensitive sectors, in its regular stability assessments and is currently undertaking quantitative analysis to enable it to gauge climate risks' implications for the Maltese financial system.

While we seek to accelerate our work to align with the increased focus on this policy area by EU and at national level, and taking active participation in the EU discussions and negotiations underway, we will be conducting further preparatory work with a view to adopting a more holistic and strategic approach to sustainable finance for our national context. We will be reviewing the positive and any negative impact brought about by the implementation of the EU regulations and seek to identify the means to ensure and facilitate market wide, consistent compliance with the requirements as early as possible. To this end, and with a view to be in a position to further harness the wider benefits of sustainable finance and the enhanced competitiveness of our sector in the field, we will be consulting with stakeholders, including experts in the field, and publishing a discussion paper during 2021, holding information and discussion meetings and generally enhance awareness and deeper understanding amongst the various market players and investors. Based on our preparatory work conducted to date, we plan to steer our focus on the development of a supporting framework to facilitate: (i) the greening of finance, (ii) financing green investments and (iii) the creation of a sustainable finance node in Malta.

4. Looking Beyond 2021

The operating environment within which we had embarked on our current three-year strategic journey has been influenced by events during the two years to date, and yet the objectives have become even more relevant and critical to attain our stated Vision during the last year and beyond.

We shall pursue our strategic objectives with renewed vigour as we chart our way forward into the next term (2022-2024).

While the 2019-2021 term was largely dominated by the Authority's internal transformation necessary to build the capacity and capability for the future sustainment of the industry and itself, the next term is expected to be characterised by more outward looking initiatives that will build on the Authority's evolving position, capabilities and strengths and the policy initiatives at national and European levels.

Developments in technology are and will remain constant and main catalysts of disruption of the sector. As much as it has been an enabler of progress in the past, technological development will increasingly become the transformative/disruptive factor that will challenge our advances going forward. All this will in turn have a profound impact on the structure of financial services and the changing face of financial markets.

In Europe, PSD2 and the GDPR have already placed the EU on a trajectory towards a European digital economy. The recently launched Digital Finance Strategy for Europe, and legislative proposals will shift gear and accelerate the pace towards the realisation of a single digital market for finance in Europe. With advanced VFA and DLT frameworks already in place and onboarding their first regulated operators, investment services legislation already reflecting newly proposed changes to MiFID, and MFSA FinTech and Cybersecurity strategies already deployed for some time, Malta is well-positioned to engage in this process and to develop into a digital finance hub within an integrated European market.

ESG and sustainable finance are the other pillars that are expected to continue to gain prominence in the post-COVID scenario and as the EU seeks to attain the decarbonisation targets by 2030 and 2050 respectively.

As regulators and policy implementing agents, we need to sharpen our focus and prepare ourselves to face the challenges arising in this new environment. While our core responsibilities - those of protecting consumer interests and safeguarding market integrity and financial stability - will not change, our success will be determined by how well we invest in our capacity to regulate and supervise new types of financial players and radically different types of financial products and services.

As we look forward to achieving what we set out to do within the current strategic term, we shall be looking at how things could be shaping up in the medium to longer term, not only at how technology could help improve the fight against financial crime and the manner in which financial services are delivered to consumers, but also at ways of mitigating any adverse effects leading to financial exclusion and increased interconnectedness potential to systemic risk. We shall also be looking at defining our role in further promoting environment, social and governance principles and ensuring a fair and transparent market for investors seeking sustainable investment opportunities.

Our next Strategic Plan for 2022-2024 will take this forward as we continue to invest in our people, systems and technology to meet the challenge of these exciting times.

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