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MFSA Publication Highlights Malta's Progress in the Regulation of Virtual Financial Assets Sector

The latest volume of the Malta Financial Services Authority (MFSA)'s publication, "[The Nature and Art of Supervision](#)", offers a detailed account of the Authority's progress in regulating virtual financial assets sector. The publication offers insights into the licensing process, including the number of authorisations issued so far, as well as the evolution of the Virtual Financial Asset Service Provider (VFASP) landscape in Malta, showcasing the Authority's commitment to fostering a safe and compliant crypto ecosystem. It also details the supervisory interactions and enforcement actions carried out by the Authority since 2020.

Cognisant of the fact that VFA is a high-risk sector, the MFSA has adopted very high expectations for new market entrants. During the authorisation stage, persons or entities wanting to offer services in this sector are subject to fitness and properness checks against specific criteria, such as reputation, competence, conflicts of interest and independence of mind, as well as commitment. The standards imposed by the Virtual Financial Assets Act (VFAA) have proven to be effective in acting as a filter, ensuring that only serious market players with a strong compliance framework are present in Malta.

Since the inception of the VFAA in November 2018 the Authority received **32 applications** for VFASP licence. Of these, 15 have been authorised, 14 were withdrawn or refused and three are still in process. As at 30 June 2023, there were **11 active licensed VFASPs**, with 3 of the authorised providers having voluntarily surrendered their licence and one provider not yet having started operating. While modest, the local VFASP market is an acute representation of the global market of VFASPs with operators of different sizes targeting different market segments.

Between 2021 and 2022, the MFSA conducted **over 140 supervisory** engagements with licensed VFASPs. This encompassed inspections, supervisory meetings, thematic assessments, and AML/CFT examinations, demonstrating the Authority's dedication to ensuring compliance and safety. In terms of enforcement and consumer protection, the MFSA issued 6 administrative measures or penalties, took 2 enforcement actions in relation to unauthorised activity and issued 71 warnings between 2020 and 2023.

As the crypto space now transitions into the European Union's Markets in Crypto-Assets (MiCA) Regulation, the publication sheds light on the MFSA's plans for alignment with MiCA, ensuring Malta remains at the forefront of crypto asset regulation. In this regard, the MFSA's

Financial Supervisors Academy will be hosting a [MiCA Conference](#) on November 16, 2023, where industry experts and stakeholders will convene to discuss the implications and opportunities brought about by the new Regulation.

“Malta’s journey in the crypto-asset space has been both challenging and rewarding, and as we document the licensing process for VFASPs, it is clear that the standards imposed by VFSA have been effective in ensuring the presence of serious market players with strong compliance frameworks.” says MFSA’s Head of FinTech Supervision, Herman Ciappara. “This publication underscores the MFSA’s commitment to transparency and regulatory excellence, providing a comprehensive update on the regulatory journey of Malta in the field of crypto assets. As we embrace the changes brought by the MiCA Regulation, our commitment to staying at the forefront of regulating the crypto asset sector remains unwavering.”

Moreover, the publication underscores the extensive collaboration between the MFSA and national and international bodies. Locally, the MFSA has collaborated with the Financial Intelligence Analysis Unit (FIAU) and the National Coordinating Committee on Combating Money Laundering and Funding of Terrorism (NCC). The MFSA has also been actively involved in discussions surrounding MiCA at the European level, contributing its supervisory experience in the crypto-asset space and also collaborated with the Sanctions Monitoring Board to assess the impacts of EU sanctions issued in response to the Russia-Ukraine conflict on the VFA landscape.

The Nature and Art of Supervision – Volume VIII – Virtual Financial Assets can be downloaded from the MFSA’s [website](#).

This latest volume builds upon a previous publication, “[The Nature and Art of Financial Supervision - Volume II - Virtual Financial Assets](#)”, which was published in December 2020.

About MFSA

The Malta Financial Services Authority (MFSA) is the single regulator of financial services in Malta, covering banks, insurance companies, investment services, trusts and pensions. In 2018, the MFSA became the first European regulator to develop a framework to regulate virtual financial assets. The MFSA's mission, as enshrined in its Strategic Statement, is to enhance its position as an independent, proactive and trustworthy supervisory authority with the main purpose of safeguarding the integrity of markets and maintaining stability within the financial sector, for the benefit and protection of consumers. The MFSA licenses over 2,000 entities to operate in the financial services sector.



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