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MFSA's Company Service Providers Reform Reduces Sector's Risk Levels

The reform of the company service providers (CSPs) sector launched in 2019 by the MFSA has proved highly effective in raising the bar for CSPs. The reform was one of the main contributing factors to the lowering of the residual risk for the CSP sector, according to the recently published National Risk Assessment 2023. The MFSA elaborates on these achievements in the [latest edition](#) of its publication series, "The Nature and Art of Supervision," shedding light on the journey of reform of CSPs and the positive impact on the sector. In this publication, the MFSA is also outlining its expectations on specific aspects which industry participants and applicants should meet at authorisation stage and during their supervisory lifecycle.

Across jurisdictions, CSPs are particularly vulnerable to money laundering and terrorist financing risks, mainly due to the nature of their business which entails assisting with the formation of companies and other legal entities. In this sense, they have an important role to play as they act as gatekeepers to the financial sector, preventing criminals seeking to obfuscate the ownership of criminally derived assets from gaining access to the wider financial system.

The MFSA publication explains the thinking behind the initial stages of the reform and the process adopted to consider applications received following the legislative changes in 2020 and 2021. It also refers to the analysis and findings of the Authority stemming from the processing of these applications and the queries received in relation to the changes to the regulatory framework.

As a result of the reform, all professionals and individuals operating as CSPs are now being captured within the MFSA's licensing and supervisory remit, with the licensed population having grown by 70% over three years. Over 290 CSPs are subject to ongoing scrutiny by the MFSA and are also required to undergo fitness and propriety assessments, which reduces the risk of them being exploited by criminals. Nonetheless, in the interest of better regulation, the Authority has started reviewing the CSP regime in order to make it more proportionate and robust where possible.

Commenting on this achievement, MFSA CEO Kenneth Farrugia said: "The results of the National Risk Assessment 2023 prove that the CSP reform was a positive achievement. It

was a major contributing factor to the lowering of the sector’s risk, enabling the sector to become more resilient and adapting well to the changes applied to the regulatory framework. In line with our strategy, the MFSA remains committed to keeping an open dialogue with its stakeholders to further improve its supervisory process and manage the risks tied to the sector effectively.”

The MFSA encourages all authorised CSPs and those considering applying for authorisation to take note of the expectations that it is setting out in this publication. Through this publication the Authority is providing guidance on the governance and compliance culture that is expected of CSPs, the fitness and properness of persons holding approved positions within the entity, and expectations in relation to conflicts of interest and risk.

Chief Officer Supervision Christopher P. Buttigieg commented: “The CSP reform presented a critical challenge to the Authority, whose main objective was to raise the bar for CSPs, while effectively applying the risk-based approach to supervision. When formulating this new regime, the Authority maintained ongoing consultation with stakeholders and practitioners, giving due attention to their concerns. We are pleased that the result is a well-balanced regulatory framework that also allows the sector to remain agile and open to business.”

The latest volume of "The Nature and Art of Supervision" document is [available](#) on the MFSA's website.

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.

