MFSA MALTA FINANCIAL SERVICES AUTHORITY

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MFSA Highlights Shortcomings in Fund Managers' Outsourcing Arrangements

Outcomes-Based Review Identifies Weaknesses in Due Diligence, Governance and Oversight of Outsourced Critical Functions

The Malta Financial Services Authority (MFSA) has completed an Outcomes-Based Review on the outsourcing arrangements within the asset management industry. The review, conducted during 2025 and the beginning of 2026, covered 16% of authorised Fund Managers, including self-managed schemes authorised as AIFs, UCITS and PIFs.

The MFSA issued a Dear CEO Letter outlining the findings and setting out its expectations for stronger due diligence, governance and oversight of outsourced arrangements.

Key Findings

The review identified a number of shortcomings, including:

- insufficient verification of critical elements relating to outsourced service providers at the pre-appointment stage;
- an unclear distinction, in certain cases, between an in-house function and an outsourced service, as well as weaknesses in the identification and management of conflicts of interest;
- limited reporting to the governing body on outsourcing arrangements, with information in certain cases restricted to a high-level overview; and
- outsourcing arrangements that are not sufficiently aligned with the nature, scale and complexity of the Fund Manager's operations, with the MFSA emphasising that a Fund Manager should not become a "letter box" entity.

The findings cover the outsourcing of critical functions including portfolio management, risk management, valuation, compliance, AML and internal audit.

MFSA Expectations

The MFSA expects Fund Managers to maintain effective oversight of outsourced service providers and ensure that outsourcing arrangements are supported by appropriate due diligence and robust governance.

The governing body remains accountable for the activities of the Fund Manager and should have sufficient visibility of the oversight and performance of outsourced service providers.

All Fund Managers are encouraged to conduct a gap analysis against the findings and recommendations set out in the “Dear CEO Letter” and take appropriate action to address any identified weaknesses.

The MFSA will continue to monitor developments against the expectations communicated and will undertake follow-up supervisory engagements where deemed necessary.

Commenting on the review, Ian Meli, Head of Investment Services Supervision at the MFSA, said:

“Outsourcing can provide Fund Managers with access to specialised professional expertise and cost efficiencies in the areas of portfolio management and risk management. However, outsourcing does not remove the responsibility of the Fund Manager or its governing body for ensuring that these functions are effectively managed and overseen.

It is important that Fund Managers identify and appropriately manage conflicts of interest arising from outsourcing relationships and maintain effective oversight of their service providers. The governing body remains accountable and should have full visibility of the activities of outsourced service providers.”