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This volume, titled “**Advancing Financial Regulation and Supervision**” focuses on the ongoing evolution of financial regulation and supervision as authorities respond to geopolitical developments, technological innovation, and the pursuit of more effective and proportionate oversight. The articles are organized to cover key themes such as cross-border supervision and geopolitical risk, the regulation of emerging technologies and payments, and the advancement of smarter, outcomes-based supervisory practice, reflecting the comprehensive approach needed to support well-functioning, resilient, and inclusive financial markets.



3.1
Academic Article

The MFSA's Outcomes-Based Approach to Supervision: The Importance of Outreach

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Authors' Bios



Prof. Buttigieg has over 25 years of experience in financial regulation and supervision. He is the Chief Officer Supervision at the Malta Financial Services Authority (MFSA), where he oversees the Authority's supervisory and regulatory strategy across all sectors. He chairs the MFSA's Regulatory and AML/CFT Committees and is a member of its Executive and Risk Committees. Between 2020 and 2021, he served as the MFSA's Interim CEO.

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Abstract

This article examines the MFSA's compliance outcomes based supervisory framework and the use of sector wide "Dear CEO" letters as a supervisory tool. It argues that these letters amplify supervisory impact by extending lessons from inspected firms to an entire sector and that their effectiveness depends on measurable outcomes. Using a three tier assessment framework covering transmission, remediation, and outcomes, the paper shows how regulatory expectations can drive sector wide behavioural change. It concludes that structured outreach provides financial supervisors with a scalable and cost effective way to strengthen supervision, market integrity, and regulatory compliance.

The MFSA's Outcomes-Based Approach to Supervision: The Importance of Outreach

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Introduction

The efficacy of financial supervision is fundamentally determined by its capacity to deliver public interest outcomes, focused primarily on financial stability, financial system integrity (including market integrity), and consumer protection.¹ The statutory mandate of the Malta Financial Services Authority (MFSA), established under the Malta Financial Services Authority Act (Cap. 330), explicitly aligns with these core objectives which are achieved through its functions of authorisation, ongoing supervision, and enforcement. To fulfil this mandate, the MFSA has executed a strategy since 2019² to augment its regulatory capacity and deepen supervisory engagement. Over a baseline seven year period, the MFSA's human resource capacity expanded by 160% up to 575 employees in 2025³. When coupled with specialised technical training delivered via the MFSA's Financial Supervisors Academy⁴, this capacity building catalysed a 350% increase in overall supervisory engagements, up over 1800 in 2025⁵. Alongside traditional supervisory methods such as inspection and supervisory meetings, the Authority has placed growing emphasis on structured outreach, including industry guidance, circulars, technical conferences, and "Dear CEO" letters⁶, as formal mechanisms to articulate supervisory expectations and shape corporate compliance cultures.

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- 1 Buttigieg, Christopher P., Effectiveness of Financial Supervision (May 05, 2024). Times of Malta, 26 May 2024, Available at SSRN: <https://ssrn.com/abstract=4850678> or <http://dx.doi.org/10.2139/ssrn.4850678>
 - 2 Malta Financial Services Authority, MFSA Vision 2021 (Strategic Statement, January 2019) <<https://www.mfsa.mt/wp-content/uploads/2019/01/MFSA-Vision-2021.pdf>> accessed 10 July 2026.
 - 3 Malta Financial Services Authority, MFSA Annual Report 2025 (Annual Report, June 2026) <<https://www.mfsa.mt/wp-content/uploads/2026/06/MFSA-Annual-Report-2025.pdf>> accessed 10 July 2026.
 - 4 Malta Financial Services Authority, 'Financial Supervisors Academy' <<https://www.mfsa.mt/fsa/>> accessed 10 July 2026.
 - 5 Malta Financial Services Authority, 'MFSA's Supervisory and Enforcement Effectiveness Dashboard' <<https://www.mfsa.mt/publications/mfsas-supervisory-and-enforcement-effectiveness-dashboard/>> accessed 10 July 2026.
 - 6 Malta Financial Services Authority, 'Dear CEO Letters' <<https://www.mfsa.mt/publications/corporate-publications/dear-ceo-letters/>> accessed 10 July 2026.

While the MFSA applies a risk-based approach to supervisory engagement and resource allocation⁷, it established a formal methodology in 2024 to implement a complementary “compliance outcomes-based” supervisory framework⁸. This approach systematically shifts the focus of supervision from mechanical rule adherence to assessing the tangible results achieved by supervised entities against predetermined compliance outcomes, thereby introducing a structural metric for supervisory effectiveness. This paper examines the MFSA's structured outreach as an essential mechanism for securing market-wide compliance. This paper advances two central propositions, that: [1] “Dear CEO” letters convert empirical findings from sampled entities into sector-wide expectations binding on boards and senior leadership, including firms not directly subject to the relevant supervisory engagement; and [2] the ultimate efficacy of these communications depends on structural measurability, requiring clear objective formulations and empirical feedback loops that connect outreach to subsequent supervisory verification.

Crucially, this paper addresses an apparent lacuna within contemporary regulatory scholarship. Indeed, while legal and economic literature extensively addresses prudential policy design and the substance of financial legislation, academic literature focusing specifically on the methodology and operational mechanics of financial supervision remains sparse and limited.⁹

The remainder of this article is organised as follows: Section 1 delineates the theoretical foundations of outcomes-based supervision within the MFSA's triennial architecture. Section 2 evaluates the operational design of “Dear CEO” letters as a scalable tool within that cycle, contextualised via comparative international approaches. Section 3 synthesises thematic evidence from published MFSA letters across governance, conduct, sustainability, digital assets, and artificial intelligence. Section 4 examines the specific policy implications for financial supervisors generally, followed by concluding remarks.

01

The Architecture of Compliance Outcomes-Based Supervision

An outcomes-based approach to financial supervision emphasises the achievement of specific and measurable goals in the financial supervisor's activities. By adopting this approach, the financial supervisor customises its supervisory engagement to effectively mitigate risks to the stability and integrity of the financial system, employing a wide array of supervisory tools. It targets systemic issues within sectors through thorough analysis of supervisory engagement findings, complemented by regulatory outreach, remediation plans, and enforcement

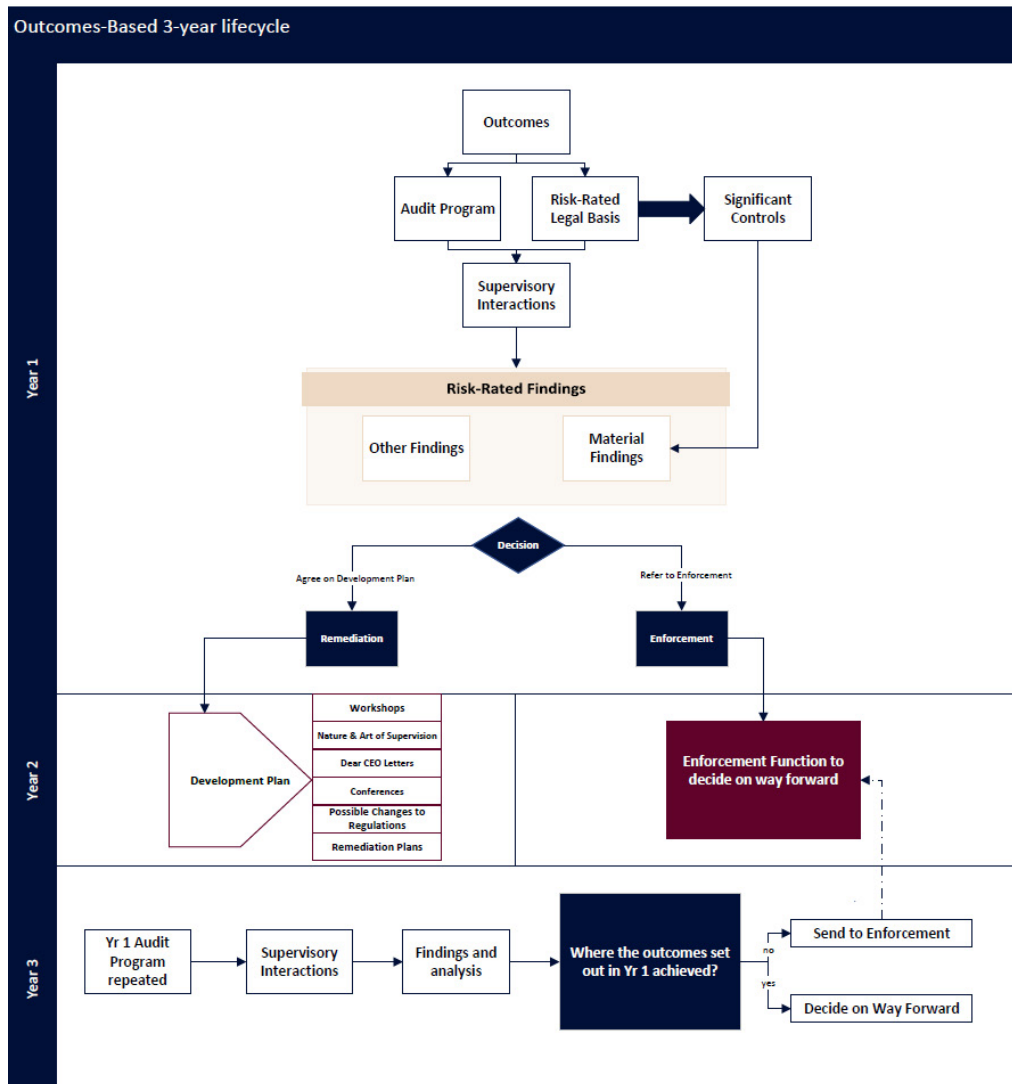
7 Malta Financial Services Authority, Risk-Based Supervision – Strengthening Our Supervisory Approach (June 2020) <<https://www.mfsa.mt/wp-content/uploads/2020/06/Risk-Based-Supervision-Stenghtening-Our-Supervisory-Approach.pdf>> accessed 10 July 2026.

8 Malta Financial Services Authority, MFSA Supervision Priorities 2024 (Report, February 2024) <<https://www.mfsa.mt/wp-content/uploads/2024/02/MFSA-Supervision-Priorities-2024.pdf>> accessed 10 July 2026.

9 One of the authors has written various papers covering financial supervision, nonetheless the academic material on this topic remains limited. See amongst others: Christopher Buttigieg, ‘The Nature and Art of Financial Supervision: Reflections on a 25-Year Journey’ (2026) 9(4) *Journal of Financial Compliance* 392 <https://doi.org/10.69554/MKBC9941>.

actions as needed.¹⁰

Outcomes-based models address the limitations of “box-ticking” or purely formalistic compliance, seeking to diminish the gap between formal legal rule-adherence and the mitigation of risks to the financial system. The operational reality of this model is demonstrated by the triennial compliance outcomes-based supervisory approach piloted within the MFSA’s 2024 supervisory priorities¹¹. This approach establishes a distinct chronological progression:



¹⁰ The characteristics of an outcomes-based approach to supervision while not specifically set in regulation may be derived from various documents published by different regulators across Europe including ESMA, see by way of example: V Ross, ‘ESMA – Driving forward high-quality supervision and transparency in a single EU capital market’, ECMI / CEPS Webinar 20.04.2022 available [esma80-187-945_verena_ross_speech_at_ecmi-ceps_webinar.pdf \(europa.eu\)](#) and C Randell, ‘Outcomes-focused regulation: a measure of success?’ Speech at the Building Societies Association 06.05.2021 available [Outcomes-focussed regulation: a measure of success? | FCA](#) both accessed 16.04.2024

¹¹ MFSA (n 10).

In terms of this structural cycle, outreach is not a discretionary or merely public-relations-driven activity; it is an architectural necessity. If the final phase (Year 3) is to rigorously measure progress, the intermediary phase (Year 2) must deploy interventions capable of actively shifting firm behaviour and governance architectures across an entire sector. The MFSA's supervisory design explicitly positions its outreach tools, specifically technical training initiatives, industry roundtables, and sector-targeted “Dear CEO” letters¹², to perform this heavy lifting during the Year 2 remediation window.

The framework was further refined within the MFSA's 2025 supervisory priorities¹³, which transitioned the pilot into a comprehensive “compliance outcomes-based supervision” model across all financial sectors. This iteration explicitly links qualitative supervisory findings to formalised quantitative risk assessments, by requiring that compliance outcomes are directly linked back to statutory goals and verified through structured data, documentation and other evidence, collected across subsequent supervisory interactions, thereby preventing the framework from devolving into abstract rhetoric.

02

Outreach and the Function of “Dear CEO” Letters

To critically evaluate how structured communication shapes market behaviour, the operational mechanics of the “Dear CEO” letter must be analysed from theoretical, international, and evaluative standpoints. This section deconstructs this supervisory instrument across three interrelated dimensions: [1] its grounding within the tripartite, evidence- and judgment-based supervisory matrix; [2] its alignment with international benchmarks on governance and proactive supervision; and [3] the structural metrics required to empirically validate its efficacy throughout the regulatory cycle.

2.1 Theoretical Foundations Within the Supervisory Matrix

The foundational architecture of financial supervision is analytically structured around three distinct pillars, each designed to mitigate specific forms of market friction and safeguard discrete public interest objectives. The first of these dimensions, prudential supervision, focuses primarily on the financial soundness, capital adequacy, and institutional resilience of individual entities, alongside the broader stability of the macro-financial framework, to mitigate the risk of systemic failure.¹⁴ This includes operational risk and cyber resilience, which have today become a key pillar of prudential supervision. In contrast, conduct of business supervision governs the market behaviour of financial market participants, targeting structural information asymmetries and principal agent dilemmas to guarantee transparency, fair treatment, and consumer protection.¹⁵ This includes the supervision of product governance, product marketing, disclosure and distribution, conflicts of interest, best execution, and value for

¹² MFSA (n 5).

¹³ Malta Financial Services Authority, MFSA Supervisory Priorities 2025 (Report, February 2025) <<https://www.mfsa.mt/wp-content/uploads/2025/02/MFSA-Supervisory-Priorities-2025.pdf>> accessed 10 July 2026.

¹⁴ Buttigieg, C. P., & Meglioli, F. (2026). The Macroprudential Approach to Systemic Risk. FSA Regulatory and Compliance Insights, Retrieved from <https://www.mfsa.mt/wp-content/uploads/2026/04/The-Macroprudential-Approach-to-Systemic-Risk.pdf>.

¹⁵ Buttigieg, C. P., & Pulis, S. (2024). Supervision of conduct of business : ensuring a fair deal for clients in Europe's smallest member state. Law and Financial Markets Review, 10.1080/17521440.2024.2372478.

money.¹⁶ Completing this matrix is the supervision of the integrity of the financial system, including anti-money laundering, countering terrorism financing and sanctions monitoring, and the supervision of market integrity, which safeguards the orderly functioning, efficiency, and transparency of trading venues and financial ecosystems, primarily through the prevention of market abuse, insider dealing, and financial crime vectors.¹⁷ Various supervisory tools are used for this purpose.

Supervisory tools serve as the primary mechanisms through which supervisory authorities assess whether regulated entities are achieving the desired prudential and conduct outcomes, rather than merely demonstrating technical compliance with regulatory requirements. This approach is underpinned by risk-based supervision, whereby supervisory resources and intensity are allocated according to an assessment of both the probability of an institution's failure or misconduct and the potential impact such an event could have on consumers, market integrity, and financial stability. Consequently, entities presenting a higher risk profile are subject to more frequent and intensive supervisory engagement. To support this process, the MFSA employs a broad suite of supervisory tools, including supervisory inspections, supervisory meetings, thematic reviews, the Supervisory Review and Evaluation Process (SREP), regulatory return analysis, desk-based reviews, and mystery shopping exercises. Collectively, these tools enable the MFSA to develop a holistic understanding of an entity's governance, risk management, financial resilience, operational effectiveness, and treatment of customers. By applying these tools in a risk-based and proportionate manner, the MFSA can identify emerging risks, challenge weaknesses, benchmark practices across the sector, and implement corrective measures where necessary, thereby promoting sound outcomes for consumers, firms, and the wider financial system.

Fundamentally, the contemporary execution of these three dimensions is both evidence- and judgment-based.¹⁸ It operates as an evidence-based discipline by requiring the systematic submission and granular empirical analysis of vast quantities of regulatory data from supervised entities to diagnose emerging vulnerabilities (data-driven supervision).¹⁹ Concurrently, it demands a judgment-based position, wherein supervisors must extrapolate from these empirical findings to make forward-looking, qualitative decisions and interventions explicitly calibrated to protect the overarching best interests of the financial system and consumers of financial services.²⁰ While these three dimensions rely on distinct statutory mechanisms, their operational efficacy within contemporary regulatory scholarship is increasingly understood to be interdependent and unified through mechanisms of market engagement.²¹

16 Buttigieg et al (n 17).

17 Buttigieg, C. P. (2016). A critical examination of the regulation of capital market integrity and the supervisory architecture in Europe's smallest Member State. *Journal of the Academy of European Law*, 17(1), 5-30.

18 Pierre Schammo, 'EU Day-to-Day Supervision or Intervention-Based Supervision: Which Way Forward for the European System of Financial Supervision?' (2012) 32 OJLS 771. >accessed 21 July 2026

19 Gentilini, Andrea, Data-Driven Supervision and the Reduction of Supervisory Burden. A Conceptual and Operational Framework for National Competent Authorities (March 01, 2026). BAFFI Centre Research Paper No. 271, Available at SSRN: <https://ssrn.com/abstract=6619578> or <http://dx.doi.org/10.2139/ssrn.6619578>

20 European Central Bank Banking Supervision, 'Supervisory measures' <<https://www.bankingsupervision.europa.eu/framework/approach/measures/html/index.en.html>> accessed 10 July 2026.

21 Buttigieg, C. P., Consiglio, J. A., & Sapiano, G. (2020). A Critical Analysis of the Rationale for Financial Regulation Part II: Objectives of Financial Regulation. *European Company and Financial Law Review*, 17(5), 437-477.

Consequently, within this supervisory methodology, outreach is properly conceptualised as a strategic mechanism designed to optimise regulatory outcomes²². By embedding structured communication channels directly into the supervisory cycle, a supervisory authority can translate empirical findings from the supervisory engagement with selected entities into market corrections. This structural approach systematically shifts regulatory compliance from a purely reactive, ex-post enforcement model to a proactive framework. Indeed, through this mechanism, the supervisor actively shapes the compliance landscape by deploying communication as a formal intervention tool, ensuring that statutory goals are realised across diverse market sectors simultaneously.

Analytically, this approach contributes to the achievement of regulatory objectives by executing four interconnected functions within the financial sector. First, structured outreach minimises persistent information asymmetries between the supervisor and the market, thereby aligning industry risk awareness with common compliance findings. Second, it clarifies the precise perimeter of supervisory expectations, providing definitive interpretive guidance where legislative frameworks are not sufficiently detailed. Third, it recalibrates internal corporate governance incentives by forcing boards of directors and executive leadership to substantively internalise a compliance culture rather than executing formalistic, box-ticking responses. Finally, it induces proactive, ex-ante remediation before consumer detriment or systemic vulnerabilities materialise, thereby operationalising a highly responsive and preemptive supervisory regime.

2.2 Alignment with International Governance and Peer Comparative Paradigms

The MFSA's approach aligns directly with international standards articulated by the Basel Committee on Banking Supervision (BCBS)²³ and the Financial Stability Board (FSB)²⁴, which collectively emphasise that supervisory efficacy relies on early, high-level engagement with boards of directors regarding risk appetite, corporate culture, and the exercise of preemptive supervisory judgment. Specifically, in its foundational *Core Principles for Effective Banking Supervision*²⁵, the BCBS mandates that robust corporate governance frameworks and active supervisory communication are essential criteria for preventing structural degradation within licensed entities. The Committee explicitly notes that supervisors must have the mandate to challenge a firm's board-level strategies, corporate culture, and risk management architecture before such elements trigger institutional distress. Parallel to this, the FSB's Supervisory Intensity and Effectiveness group²⁶ has consistently advanced the regulatory paradigm beyond formalistic compliance tracking. In its *Progress Report on Enhanced Supervision*²⁷, the FSB emphasises that effective supervisory interactions require a shift toward qualitative, forward-looking dialogues with corporate boards, focusing specifically on the operational reality of an institution's risk appetite framework and risk culture.

22 Dalvinder Singh and Oana Ștefan, 'The "Supervisory Effects" of the ECB Soft Law as a Dialogue Tool in the Field of Banking Supervision: Reimagining Soft Law Effects' (2026) Yearbook of European Law. >accessed 21 July 2026

23 Basel Committee on Banking Supervision, 'The Basel Committee – overview' <<https://www.bis.org/bcbs/index.htm>> accessed 10 July 2026.

24 Financial Stability Board, 'Financial Stability Board' <<https://www.fsb.org/>> accessed 10 July 2026.

25 Basel Committee on Banking Supervision, Core Principles for effective banking supervision (Standards, April 2024) <<https://www.bis.org/bcbs/publ/d573.htm>> accessed 10 July 2026.

26 The Financial Stability Board's (FSB) Supervisory Intensity and Effectiveness (SIE) group was established post-2008 to ensure national authorities apply rigorous oversight to Systemically Important Financial Institutions (SIFIs). Financial Stability Board, Increasing the Intensity and Effectiveness of SIFI Supervision: Progress Report to the G20 Ministers and Governors (Progress Report, November 2012) <https://www.fsb.org/uploads/r_121031ab.pdf> accessed 10 July 2026.

27 Financial Stability Board, Supervisory Intensity and Effectiveness: Progress Report on Enhanced Supervision (Progress Report, April 2014) <https://www.fsb.org/uploads/r_140407.pdf> accessed 10 July 2026.

This policy direction was subsequently codified in the FSB's *Principles for an Effective Risk Appetite Framework*²⁸, which establishes that a resilient supervisory approach demands continuous, iterative testing of how governance incentives are cascaded down through an organisation.

Communications directed to executive management are increasingly recognised as critical intermediate mechanisms within the regulatory enforcement hierarchy.²⁹ The MFSA's framework aligns closely with the long-standing practices of peer European and international regulators. For instance, the Central Bank of Ireland (CBI) systematically deploys "Dear CEO" letters as a primary tool to broadcast granular sectoral feedback and mandate explicit corporate governance rectifications across its licensed population.³⁰ The CBI's structured use of these instruments demonstrates how a European Supervisor of an international financial centre can leverage centralised executive communications to drive horizontal compliance and shape risk appetites across financial sectors simultaneously.

Similarly, the Bank of England's Prudential Regulation Authority (PRA) frequently utilises formal thematic correspondence addressed to executive management and boards to target structural systemic deficiencies.³¹ A notable example includes the PRA's targeted interventions regarding the reliability of regulatory returns, where the supervisor utilised thematic letters to establish explicit, market-wide expectations for remediation, warning of heightened supervisory intensity for non-aligned firms.³² Furthermore, the UK Financial Conduct Authority (FCA) extensively employs sectoral "Dear CEO" or "Portfolio" letters to outline specific conduct risks, clarify the perimeter of acceptable market practice, and demand formal board-level attestations of compliance.³³ Cumulatively, these comparative international precedents confirm that sectoral executive communications occupy a pivotal strategic position between ongoing desk-based or onsite supervision and the triggering of formal, adversarial administrative sanctions. By functioning as an authoritative, public warning mechanism, they provide a structured opportunity for industry-wide *ex-ante* remediation, validating the MFSA's conceptualisation of the "Dear CEO" letter as a core, scalable instrument of compliance outcomes-based supervision.

The MFSA structurally embeds these international benchmarks and peer paradigms within its core supervisory and stakeholder engagement infrastructure. From a functional perspective, "Dear CEO" letters operate as sophisticated, high-level supervisory instruments deployed directly within the executive governance matrix of supervised entities. Typically catalysed by empirical data generated from targeted thematic reviews, mystery shopping

28 Financial Stability Board, *Principles for an Effective Risk Appetite Framework* (Principles, November 2013) <https://www.fsb.org/uploads/r_131118.pdf> accessed 10 July 2026.

29 Jakob Schemmel, 'The ESA Guidelines: Soft Law and Subjectivity in the European Financial Market—Capturing the Administrative Influence' (2016) 23 *Indiana Journal of Global Legal Studies* 455.>accessed 21 July 2026

30 Central Bank of Ireland, *Dear CEO Letter: Key Regulatory and Supervisory Priorities 2026* (Regulatory Circular, 2026) <<https://www.centralbank.ie/docs/default-source/publications/regulatory-and-supervisory-outlook-reports/dear-ceo-letter-key-regulatory-and-supervisory-priorities-2026.pdf>> accessed 10 July 2026.

31 Prudential Regulation Authority, *Dear CFO Letter: Thematic feedback on accounting for IFRS 9 expected credit losses (ECL)* (Regulatory Letter, 30 September 2025) <<https://www.bankofengland.co.uk/prudential-regulation/letter/2025/thematic-feedback-on-accounting-for-ifs-9-ecl>> accessed 10 July 2026.

32 Prudential Regulation Authority, *Dear CEO Letter: Thematic findings on the reliability of regulatory returns* (Regulatory Letter, 10 September 2021) <<https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2021/september/thematic-findings-on-the-reliability-of-regulatory-returns.pdf>> accessed 10 July 2026.

33 Financial Conduct Authority, 'Supervisory correspondence' <<https://www.fca.org.uk/about/how-we-regulate/supervision/supervisory-correspondence>> accessed 10 July 2026.

exercises and compliance inspections, these instruments fulfil a dual analytical purpose. First, they aggregate and synthesise pervasive, adverse findings, thereby minimising systemic informational asymmetries by exposing recurring operational vulnerabilities. Second, they articulate the explicit, actionable remedial expectations of the MFSA, transforming raw diagnostic data into clear compliance benchmarks. Beyond this immediate corrective function, these letters are increasingly leveraged as mechanisms for forward-looking supervisory alignment. By signalling impending structural shifts, most notably complex, incoming European Union regulations such as the Digital Operational Resilience Act (DORA) or the Markets in Crypto-Assets Regulation (MiCAR), they provide market participants with the necessary lead time to execute preemptive, *ex-ante* governance and compliance recalibrations.

The architectural sophistication of this mechanism was formally refined in 2024, when the MFSA restructured its communication strategy to separate direct supervisory feedback from broader market guidance. Under this dual-channel framework, individual deficiencies are communicated privately to entities subject to supervisory engagement via specific supervisory letters, while systemic, cross-firm trends are disseminated publicly to the wider financial ecosystem through collective “Dear CEO” letters. Crucially, by addressing these instruments to all licensed entities within a given sector, irrespective of whether they were included in the empirical inspection sample, the MFSA achieves a significant regulatory scaling effect. This structural approach effectively transmits a localised, sample-based supervisory exercise into a binding, market-wide behavioural signal. By shifting the baseline compliance expectations of the entire market population simultaneously, the framework drives industry-wide remediation without requiring the operationally resource-intensive expenditure of executing individualised inspections across every licensed market participant.³⁴

Consequently, as codified within the Authority's supervisory priorities documents, these collective communications function as the primary operational lever for sustaining the integrity of the compliance outcomes-based cycle.³⁵ Positioned within the intermediary phase (year 2 of the Compliance Outcomes-Based Process) of the triennial supervisory framework, “Dear CEO” letters serve as the active interface through which the MFSA *enforces* widespread corrective actions. By establishing a public benchmark of adequacy, the issuance of these letters initiates a formal remediation window. This ensures that the broader industry is compelled to align its internal controls and corporate culture with the stated regulatory outcomes immediately prior to the commencement of the final phase (year 3), which is dedicated to empirical verification, trend reassessment, and targeted re-testing.³⁶

2.3 Evaluative Frameworks for Assessing Supervisory Efficacy

Within an integrated, compliance outcomes-based framework, the regulatory efficacy of “Dear CEO” letters cannot be assumed a priori. It must instead be systematically quantified across three sequential tiers of analysis.³⁷ The first tier, transmission effectiveness, will assess whether the communication successfully influences the executive governance of a firm and is formally integrated into board-level agendas. Given that these instruments are explicitly

34 This is inline with the MFSA's risk based approach, which mirrors the approach taken by the majority of financial supervisors internationally.

35 MFSA (n 15).

36 See diagram on page 4

37 The pilot compliance outcomes-based supervision initiated in 2024 is currently in its third year of the supervisory cycle. The measured extent of supervisory effectiveness will be clear at the end of this year.

addressed to chief executives, the formal recording of the letter within internal board minutes and corporate risk registers serves as the primary baseline metric, establishing accountability at the highest tier of corporate fiduciary responsibility.

Building upon successful transmission, the second tier will evaluate remediation effectiveness, analysing whether market participants have executed concrete, measurable internal reforms within the structural timeline of the supervisory cycle. Within the MFSA's triennial architecture, this dimension of effectiveness is optimised by shifting away from passive reliance on industry goodwill. Instead, the issuance of the letter is synchronised with targeted evidence requests, ad-hoc reporting mandates, or mandatory follow-up supervisory meetings that legally compel firms to demonstrate explicit alignment with the stated expectations. This active operational stance ensures that the letter functions as an enforceable regulatory catalyst that disrupts status quo non-compliance across the horizontal market population.

The ultimate validation of the mechanism resides in the third tier, outcome effectiveness, which measures whether the overarching prudential or conduct objectives are substantively achieved when the sector is re-tested in the final phase of the cycle. The sophistication of the MFSA's methodology lies in its ability to embed measures of compliance in subsequent supervisory engagement rendering the impact of the intervention (at year 3) fully testable. Consequently, the precise drafting and structural design of these letters remain paramount; communications that articulate the specific evidence to be tested, the precise metrics of adequacy, and the formal escalation path for non-delivery are inherently more effective than letters relying on vague, high-level principles, thereby proving that regulatory clarity is the ultimate driver of supervisory efficiency.

03

Thematic Evidence from Supervisory Analytics

An evaluation of published MFSA “Dear CEO” letters³⁸ demonstrates how the Authority uses structured outreach to address the complex thematic risks prioritised within its regulatory agenda. By analysing these interventions across distinct regulatory domains, ranging from traditional corporate governance to fintech, this section demonstrates how the MFSA systematically converts findings into binding, market-wide behavioural adjustments.

3.1 Prudential Supervision: Corporate Governance and Internal Control Functions

Reflecting the global consensus that weak internal cultures and compromised corporate governance drive systemic compliance failures, the MFSA frequently targets internal control architectures to enforce structural accountability. This strategy is demonstrated by the MFSA's February 2026 “Dear CEO” letter issued following an extensive thematic review on the Compliance and Internal Audit functions of Alternative Investment Fund Managers (AIFMs)

38 Malta Financial Services Authority, Dear CEO Letters <<https://www.mfsa.mt/publications/corporate-publications/dear-ceo-letters/>> accessed 4 August 2026.

and UCITS Management Companies.³⁹ This communication aggregates highly granular empirical findings to expose structural vulnerabilities across asset management entities, notably identifying that nearly half of the inspected management companies completely omitted core business activities and critical regulatory obligations from their active compliance monitoring programmes. Furthermore, the review exposed widespread deficiencies regarding the operational independence of control functions, inadequate conflict of interest logs, a lack of formalised escalation procedures for compliance breaches, and an absence of structured compliance reviews concerning marketing materials and corporate websites.

The analytical substance of this intervention lies in its deep, intrinsic link to the core objectives of prudential supervision. Experience in financial supervision⁴⁰ suggests that institutional resilience and financial soundness are fundamentally contingent upon the integrity of an entity's internal governance and controls. A failure to execute comprehensive compliance risk assessments or maintain independent internal audit functions creates opaque operational risks that may directly erode a financial entity's capital buffers and balance sheet stability. By failing to detect underlying operational failures, legal non compliance, or structural conflicts of interest, an institution becomes highly susceptible to rapid capital degradation, reputational damage, and, in a worst case scenario, eventual insolvency.

Consequently, by utilising the "Dear CEO" letter to mandate that all fund management companies adopt documented, granular compliance risk assessments to underpin their Compliance Monitoring Programmes (CMPs), the MFSA actively safeguards financial stability. Within a highly interconnected financial ecosystem, the failure of localised internal control structures within asset management vehicles may trigger rapid contagion vectors into the wider banking and investment infrastructure. By enforcing uniform thresholds for governance and risk management across the entire market population simultaneously, the MFSA's proactive outreach prevents the build up of correlated micro-prudential vulnerabilities.

3.2 Conduct Risk and Consumer Protection

In contemporary regulatory theory, conduct of business supervision focuses intensely on correcting structural information asymmetries, mitigating principal agent conflicts, and eliminating systemic market conduct failures that lead to consumer detriment.⁴¹ The MFSA's strategic deployment of the "Dear CEO" modality within this arena demonstrates how targeted, post diagnostic outreach translates empirical findings from supervisory exercises into enforceable, sector-wide conduct standards, thereby advancing the core statutory objective of consumer protection.

This mechanism is illustrated by three consecutive, interventionist communications issued between 2025 and 2026. The Authority's April 2026 "Dear CEO" letter regarding complaints handling by investment firms explicitly targets

39 Malta Financial Services Authority, Dear CEO Letter: Thematic Review on Compliance and Internal Audit Functions of Management Companies of AIFs and UCITS funds (Regulatory Letter, 23 February 2026) <<https://www.mfsa.mt/wp-content/uploads/2026/02/Dear-CEO-Letter-Thematic-Review-on-Compliance-and-Internal-Audit-Functions-of-Management-Companies-of-AIFs-and-UCITS-Funds.pdf>> accessed 10 July 2026.

40 One of the authors has more than two six years of supervisory experience, including in high-level positions at the MFSA.

41 Buttigieg et al (n 17).

the operational integrity of redress mechanisms.⁴² Arising from thematic reviews, this letter exposes critical failures across the sector, notably highlighting a pervasive lack of clear internal ownership over the complaints process, structural bottlenecks in resolution timelines, a failure to register or track verbal expressions of dissatisfaction, and inadequate root cause analyses by compliance functions. By failing to systematically assess whether individual complaints indicate broader, recurring product or process flaws, firms effectively perpetuate consumer harm. To counteract this, the Authority's letter establishes explicit expectations: [a] boards must actively oversee complaints handling metrics; [b] mandate that verbal complaints are integrated into formal tracking frameworks; and [c] implement rigorous, iterative root cause methodologies to ensure that grievances drive systemic internal remediation.

The structural protection of vulnerable consumers within complex retail markets is addressed in the February 2026 "Dear CEO" letter concerning the Insurance Distribution Directive⁴³ (IDD) client suitability assessment process for Insurance Based Investment Products (IBIPs).⁴⁴ Operating in a domain characterised by information asymmetry, the MFSA's thematic investigations revealed widespread, severe deficiencies in how intermediaries execute advisory sales. The main findings exposed that a significant proportion of distributors utilised generic, overly simplistic questionnaires that failed to granularly capture retail clients' financial vulnerabilities, risk appetites, or specific investment objectives. Furthermore, the review identified a critical failure to document the substantive rationale underpinning suitability recommendations and a lack of formalised internal controls to prevent aggressive cross-selling. In response, the MFSA used the "Dear CEO" letter to impose rigid, market-wide operational boundaries, demanding that all distributors implement objective, multi-dimensional suitability algorithms, maintain audit trails of the advisory rationale, and explicitly demonstrate how their governance structures prevent conflicts of interest from distorting product recommendations.

Finally, the evolution of conduct supervision into qualitative, value driven outcomes is exemplified by the May 2025 "Dear CEO" letter detailing expectations under the Markets in Financial Instruments Directive⁴⁵ II Sustainability Requirements.⁴⁶ Here, the MFSA addresses the emerging conduct risk of "greenwashing"⁴⁷ and the misaligned allocation of retail capital. The supervisory findings indicated that while investment firms integrated superficial sustainability disclosures into their client documentation, they routinely failed to substantively assess clients' specific sustainability preferences or map those preferences accurately onto the complex Environmental, Social, and Governance (ESG) features of financial instruments. The letter transforms these findings into a proactive

42 Malta Financial Services Authority, Dear CEO Letter: Outcomes-Based Supervision – Investment Firms: Complaints Handling (Regulatory Letter, April 2026) <<https://www.mfsa.mt/wp-content/uploads/2026/04/Dear-CEO-Letter-Outcomes-Based-Supervision-Investment-Firms-Complaints-Handling.pdf>> accessed 10 July 2026.

43 Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast) Text with EEA relevance

44 Malta Financial Services Authority, Dear CEO Letter: IDD Suitability Requirements – client suitability assessment process in the context of advisory sales of IBIPs (Regulatory Letter, 20 February 2026) <<https://www.mfsa.mt/wp-content/uploads/2026/02/Dear-CEO-Letter-IDD-Suitability-Requirements-Client-Suitability-Assessment-Process-in-the-Context-of-Advisory-Sales-of-IBIPs.pdf>> accessed 10 July 2026.

45 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (recast) Text with EEA relevance

46 Malta Financial Services Authority, Dear CEO Letter: MFSA Expectations in the Context of MiFID II Sustainability Requirements (Regulatory Letter, 21 May 2025) <<https://www.mfsa.mt/wp-content/uploads/2025/05/Dear-CEO-Letter-MFSA-Expectations-in-the-Context-of-MiFID-II-Sustainability-Requirements.pdf>> accessed 10 July 2026.

47 Buttigieg, C.P., Pulis, S. Strategic initiatives to address greenwashing. *ERA Forum* 25, 327–337 (2024). <https://doi.org/10.1007/s12027-024-00815-7>

compliance mandate, outlining that the consumer protection objective cannot be satisfied by formalistic disclosure alone. The MFSA explicitly expects firms to structurally overhaul their suitability assessment frameworks, train front-line advisory staff to decode complex sustainability preferences, and establish metrics-based verification protocols to ensure that green product distribution matches the empirical intent of the retail investor.

Cumulatively, these three letters demonstrate that within a compliance outcomes-based conduct regime, the “Dear CEO” instrument serves as an essential mechanism for elevating market conduct. By broadcasting aggregate deficiencies and outlining clear, metric-based criteria of adequacy, the Authority effectively neutralises informational imbalances, forces boards to dismantle extractive sales cultures, and guarantees that consumer protection is operationalised as a tangible, verifiable regulatory outcome.

3.3 Supervision for Market Integrity

The preservation of market integrity stands as a foundational pillar of financial supervision, essential for maintaining public trust, preventing systemic distortions, and ensuring the orderly functioning of trading venues and investment ecosystems. In contemporary regulatory scholarship, the enforcement of market integrity is explicitly framed as a protection against asymmetrical information exploitation and manipulative conduct.⁴⁸ The MFSA's strategic deployment of the “Dear CEO” modality in this specialised area is demonstrated by its June 2025 communication⁴⁹, which synthesised systemic findings stemming from comprehensive supervisory inspections held with investment services providers between 2020 and 2024 concerning the EU Market Abuse Regulation (MAR)⁵⁰.

The empirical findings detailed in this review exposed structural vulnerabilities in the market integrity defence architectures of licensed firms. Chief among these was a widespread failure to maintain effective, automated trade surveillance systems capable of detecting insider dealing and market manipulation, with many firms relying on manual, ad-hoc oversight completely unsuited to modern trading velocities. Furthermore, the Authority identified critical deficiencies regarding the adequacy of suspicious transaction and order reports (STORs), a systemic lack of granular employee training on localised market abuse typologies, and a failure to establish robust internal escalation protocols. Crucially, the inspections revealed that many entities failed to maintain compliant, up-to-date insider lists or securely restrict access to inside information, thereby directly escalating the risk of unlawful disclosure and structural market distortion.

The overarching picture painted by this communication reveals that the MFSA conceptualised the “Dear CEO” letter as an instrument of perimeter alignment. To safeguard market integrity, the MFSA used this letter to translate complex statutory MAR requirements into rigid, market-wide operational boundaries. The supervisory expectations articulated are explicit and proactive: all investment services providers must execute a comprehensive, documented market abuse risk assessment that directly maps onto their specific business model, trading volumes,

48 Buttigieg, C. (2006). Investor protection from market abuse. Third Quarter 2006 - The Economic Update, 1-3.

49 Malta Financial Services Authority, Dear CEO Letter: Market Abuse Regulation (EU) No 596/2014 ('MAR' or the 'Regulation') – Findings stemming from the supervisory inspections held with Investment Services Providers between 2020 and 2024 (Regulatory Letter, 9 June 2025) <<https://www.mfsa.mt/wp-content/uploads/2025/06/Dear-CEO-Letter-Market-Abuse-Regulation-EU-No-5962014-%E2%80%98MAR-or-the-%E2%80%98Regulation-Findings-Stemming-from-the-Supervisory-Inspections-Held-with-Investment-Services-Providers-between-2020-and-2024.pdf>> accessed 10 July 2026.

50 Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC Text with EEA relevance

and asset classes. Boards of directors are commanded to abandon passive reliance on legacy systems, implement sophisticated, independent post-trade surveillance technologies, and enforce strict insider-list governance.

By disseminating these findings collectively to all licensed entities, regardless of whether they were part of the historical 2020–2024 inspection sample, the “Dear CEO” letter functioned as a scalable implementation catalyst. It signalled that market integrity cannot be treated as a compartmentalised back-office compliance checkbox, but must be operationalised as an active, board-led corporate culture. Ultimately, this intervention proves that for the market integrity objective to be achieved, the supervisor must use structured outreach to weaponise historical compliance metrics, forcing a simultaneous, market-wide elevation of defensive barriers to insulate the financial ecosystem from manipulation and systemic reputational degradation.

3.4 Financial Crime Compliance: Counter-Terrorist Financing, Counter-Proliferation Financing, and Sanctions Evasion

Within the architecture of financial supervision, financial crime compliance represents the critical frontier where regulatory oversight intersects with national security and global financial system integrity. While anti-money laundering (AML) frameworks primarily address the stabilisation of systems against the integration of illicitly acquired capital, countering the financing of terrorism (CFT), counter-proliferation financing (CPF), and enforcing targeted financial sanctions (TFS) are designed to disrupt the flow of funds to malicious actors, irrespective of the funds’ initial legality.⁵¹ The MFSA’s June 2026 “Dear CEO” letter issued to credit institutions, synthesising a comprehensive thematic review on mitigating TF, PF, and TFS evasion risks.⁵²

The empirical findings from this thematic exercise brought to light critical vulnerabilities across the banking sector. Chief among these was a structural deficiency in how institutions conceptualise and segregate risk typologies. The review indicated that a significant portion of institutions failed to provide distinct, standalone consideration to TF and PF vectors within their internal methodologies, frequently incorporating them under broader, generalised AML risk metrics. Furthermore, while strong baseline alignment with the National Risk Assessment⁵³ (NRA) was observed, operational vulnerabilities emerged in customer screening and real-time transaction monitoring, particularly regarding the identification of sophisticated circumvention tactics utilised by sanctioned entities. A crucial, forward-looking finding focused on technological adoption: banks increasingly utilise artificial intelligence (AI) and automated algorithmic screening to handle massive transaction volumes, yet many failed to demonstrate an adequate technical understanding of the underlying model designs, leading to unmitigated model risks and untracked alert clearance decisions.

51 Buttigieg, C. P., & Micallef, E. (2026). The Money Laundering Reporting Officer: Some Reflections from Malta. *Journal of Financial Compliance*, 9(3), 273-286.

52 Malta Financial Services Authority, *Dear CEO Letter: Mitigating Terrorist Financing, Proliferation Financing and Targeted Financial Sanctions Evasion Risks in Credit Institutions* (17 June 2026) <https://www.mfsa.mt/wp-content/uploads/2026/06/Dear-CEO-Letter-Mitigating-Terrorist-Financing-Proliferation-Financing-and-Targeted-Financial-Sanctions-Evasion-Risks-in-Credit-Institutions.pdf> accessed 20 July 2026.

53 National Coordinating Committee on Combating Money Laundering and Funding of Terrorism, *Money Laundering, Terrorist and Proliferation Financing and Targeted Financial Sanctions: Malta's National Risk Assessment 2023* (December 2023) https://ncc.gov.mt/wp-content/uploads/2024/10/PublicNRA_Dec2023-1.pdf accessed 20 July 2026

To address these vulnerabilities, the MFSA utilised the “Dear CEO” letter to delineate explicit, non-negotiable supervisory expectations aimed at institutionalising an adaptive, forward-looking financial crime defense. First, credit institutions are expected to decouple TF, PF, and TFS evasion risks from general money laundering metrics, integrating dedicated risk assessments that account for the unique convergence of traditional banking channels and emerging digital assets. Second, regarding the deployment of AI-driven compliance tools, the MFSA established a clear prudential boundary: boards and management must possess an explicit understanding of algorithmic functionality and limitations, mandating the maintenance of comprehensive, unalterable audit trails for all automated alerts and subsequent human clearance decisions. Finally, institutions are required to institutionalise role specific, risk sensitive training regimes to ensure that front-line compliance personnel can recognise complex, modern sanctions-evasion typologies.

From an overarching perspective, this specific intervention reveals that the “Dear CEO” modality in financial crime compliance operates as a mechanism for dynamic calibration. Because geopolitical landscapes and illicit financing techniques evolve at high velocity, static legislative frameworks cannot provide the real-time adjustments required to defend the financial perimeter. By issuing this “Dear CEO” letter, the MFSA effectively leverages empirical supervisory data to bridge the gap between high-level international mandates (such as FATF standards) and the day-to-day operational realities of credit institutions. The “Dear CEO” letter thus acts as a mechanism of implementation, converting an assessment of weaknesses into a mandatory, market-wide elevation of defensive barriers necessary to secure the jurisdiction against reputational damage and systemic financial crime infiltration.

3.5 Technological Supervision: Digital Operational Resilience

In contemporary financial regulation, the paradigm of institutional safety has permanently expanded beyond traditional financial solvency metrics to encompass digital operational resilience. Under this framework, the capacity of a financial entity to withstand, respond to, and recover from severe information and communication technology (ICT) disruptions is treated as an essential component of macro prudential stability.⁵⁴ With the implementation of the Digital Operational Resilience Act⁵⁵ (DORA), European financial supervisors have been tasked with transitioning from localised cybersecurity checklists to systemic operational testing. The MFSA's September 2025 “Dear CEO” letter⁵⁶, summarising its 2024 supervisory engagements, provides a primary empirical window into this transition by offering granular insights through the lens of the Authority's newly deployed compliance outcomes-based supervision model.

The empirical observations compiled by the Authority's Supervisory ICT Risk and Cybersecurity function unmasked substantial, uneven preparedness across the jurisdiction, despite a strong directional commitment from the pilot phase where a majority of assessed controls were achieved. Critical vulnerabilities were exposed across the core pillars of the DORA framework, beginning with structural gaps in the formulation of comprehensive ICT risk

54 European Systemic Risk Board, *Systemic Cyber Risk* (February 2020) https://www.esrb.europa.eu/pub/pdf/reports/esrb-report200219_systemiccyberrisk~101a09685e.en.pdf accessed 20 July 2026.

55 Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011 (Text with EEA relevance)

56 Malta Financial Services Authority, *Dear CEO Letter: Supervisory Engagements and Digital Operational Resilience 2024 - General Observations Report* (26 September 2025) <https://www.mfsa.mt/wp-content/uploads/2025/09/Dear-CEO-Letter-Supervisory-Engagements-and-Digital-Operational-Resilience-2024.pdf> accessed 20 July 2026

management frameworks and inconsistent alignment with recognised international industry standards. Furthermore, severe deficiencies were identified in localised incident response capabilities, where a significant portion of licence holders struggled with precise incident classification methodologies and lacked resilient communication channels during operational disruptions. The most acute implementation lags emerged in digital operational resilience testing, where a vast majority of firms remained in the primitive stages of developing formalised testing programmes, alongside a persistent failure to manage downstream ICT third-party sub-outsourcing concentrations and contractually secure executable exit strategies.

To compress these implementation gaps ahead of full verification cycles, the Authority utilised the “Dear CEO” letter to issue prescriptive remediation parameters that demand a permanent restructuring of corporate governance incentives. Corporate boards are explicitly expected to transition from passive, technology-isolated oversight to direct, active accountability for ICT risk management, meaning that directorates must substantively understand the risk parameters underpinning their operational infrastructure rather than delegating these duties entirely to external technical specialists. Furthermore, firms are required to implement objective, multi-dimensional incident classification systems that guarantee real-time regulatory escalation, while concurrently overhauling third party service level agreements to secure unhindered auditability and explicit, legally sound exit paths.

When contextualised within the central theme of this article, the structural efficacy of the “Dear CEO” modality, the communication reveals a profound evolution in the mechanics of responsive financial supervision, demonstrating how an outreach channel can function as an active mechanism for continuous accountability. This letter operates as the formal interface through which the regulator enforces widespread corrective action. By embedding centralised executive communication within the intermediate phase of the triennial supervisory framework, the supervisor can broadcast the aggregated metrics of adequacy to the entire market population, effectively peer benchmarking data to drive compliance across firms that were not part of the initial onsite inspection sample.

Ultimately, this intervention confirms that in highly complex, technologically volatile domains like digital operational resilience, the “Dear CEO” letter acts as a vital regulatory bridge that shifts industry psychology away from periodic compliance toward an enduring state of operational readiness. By explicitly signalling a mandatory twelve month remediation window followed by a structured phase of targeted re testing, the communication eliminates the ambiguity of regulation. For resource-constrained regulators, this model proves to be an indispensable tool for maximising efficiency. It allows the financial supervisor to convert diagnostic data from an empirical sample into a market-wide expectation for operational and cultural transformation, thereby safeguarding the collective financial architecture from systemic technological shocks.

3.6 Technological Supervision: Prudential Expectations on Artificial Intelligence

The frontier of emerging technology regulation highlights a sophisticated evolution in how the MFSA deploys its structured outreach framework, as exemplified by the issuance of the specialised “Dear CEO” letter on Artificial Intelligence (AI) Governance, Risk, and Prudential Expectations.⁵⁷ In high-velocity, technologically fluid domains where formal, static legislative frameworks often lag behind market adoption, the “Dear CEO” letter transitions from an ex-post diagnostic synthesis of supervisory findings which also sets supervisory expectations, into an

⁵⁷ Malta Financial Services Authority, *Dear Chief Executive Officer: Artificial Intelligence (AI) – Governance, Risk and Prudential Expectations* (4 June 2026) <https://www.mfsa.mt/wp-content/uploads/2026/06/Dear-CEO-letter-Artificial-Intelligence-AI-Governance-Risk-and-Prudential-Expectations.pdf> accessed 20 July 2026.

ex-ante, anticipatory boundary-setting instrument.⁵⁸ Rather than waiting for widespread technological failures or algorithmic harms to materialise, the MFSA leverages this modality to proactively insert clear governance and prudential perimeters directly into the corporate boardrooms of supervised entities.

This specific regulatory intervention signals that the MFSA conceptualises AI adoption not merely as an isolated operational or IT choice, but as a core component of institutional risk appetite and board-level fiduciary accountability. By utilising the “Dear CEO” modality in this emerging space, the regulator achieves three distinct strategic objectives. First, it establishes immediate baseline parameters for risk management and algorithmic accountability, demanding that boards maintain active oversight over AI deployments, data lineage, and model validation. Second, it minimises information asymmetries by clarifying how existing prudential, operational resilience, and conduct of business standards apply to automated, data driven decision systems. Third, it serves as a soft law signalling mechanism that bridges the gap before the full implementation of supranational architectures, such as the EU AI Act and the adoption of EU prudential standards in the field. Consequently, the MFSA's deployment of this letter confirms that for cutting edge technological shifts, the “Dear CEO” instrument functions as an agile, responsive mechanism designed to shape industry culture and enforce proactive risk mitigation at the earliest stages of the adoption curve.

In the final analysis, the “Dear CEO” letters are not just standard administrative updates or public relations exercises. Instead, they serve as a highly effective tool that helps a financial supervisor to do more with less. By inspecting a sample of firms and sharing the aggregated findings and clear expectations with the entire market, the financial supervisors create a ripple effect. This approach forces all companies within a sector to fix their internal issues at the same time, without requiring the financial supervisor to spend time and resources conducting individual inspections at every single firm. Ultimately, this model bridges the gap between abstract laws and real-world compliance. It provides a practical, cost-effective blueprint for financial supervisors who need to maintain strict oversight and global market confidence while operating with finite resources.

04

General Policy Implications for Financial Supervisors

The structural integration of the MFSA's compliance outcomes-based framework offers vital policy insights for financial supervisors globally. Jurisdictions routinely confront a distinct structural asymmetry, especially international financial centres, as they manage large, highly complex, and cross-border financial sectors, particularly within specialised domains like FinTech and digital assets, while operating with finite supervisory staff and budgetary resources. In such environments, traditional, exhaustive firm-by-firm inspection models for the entire financial sector are operationally unsustainable and structurally incapable of keeping pace with risks in the financial system.

The MFSA's architecture demonstrates a viable alternative blueprint. By positioning structured outreach via “Dear CEO” letters as a formalised, post-evidential phase within a triennial cycle, financial supervisors can effectively

⁵⁸ Heikki Marjosola, ‘Shadow Rulemaking: Governing Regulatory Innovation in the EU Financial Markets’ (2022) 23 German Law Journal 186. >accessed 21 July 2026

maximise the utility of their limited resources. This approach allows the supervisor to convert resource-intensive analytical work from a representative sample of firms into an immediate, enforceable behavioural signal across the entire market population. It yields a powerful scaling effect, raising baseline compliance standards and driving industry-wide remediation without requiring an unfeasible expansion of the supervisory headcount.

Furthermore, this model emphasises that for resource-constrained financial supervisors, clarity is the ultimate tool for efficiency. When supervisory communications move away from high-level, ambiguous principles and instead articulate explicit, metrics-based criteria of adequacy, the compliance burden on firms becomes predictable, and the supervisor's subsequent verification phases become highly structured and less resource depleting. Ultimately, the MFSA's experience suggests that a robust compliance outcomes-based model, anchored by targeted, sector-wide outreach, allows financial supervisors to achieve supervisory convergence, preserve international market confidence, and maintain robust regulatory oversight in a highly scalable and cost-effective manner.

05

Conclusion

This article has critically evaluated the architectural paradigm shift within contemporary financial supervision from formalistic, rule-adherent models to an integrated, compliance outcomes-based framework. By focusing on the structural integration of the MFSA triennial supervisory architecture, the analysis demonstrates that the efficacy of contemporary regulation relies on a systematic fusion of evidence-based data analytics and judgment based qualitative interventions. The central contribution of this paper lies in its conceptualisation of structured market outreach, specifically the deployment of collective “Dear CEO” letters, not as an auxiliary administrative exercise, but as an endogenous, supervisory potent mechanism of responsive regulation. The empirical and thematic analysis across diverse domains, including sustainable finance, digital assets, and artificial intelligence governance, confirms that these high-level instruments successfully convert localised, sample-based diagnostic findings into binding, market-wide behavioural adjustments. By targeting the executive boardroom directly, this dual channel communication strategy effectively reshapes institutional risk appetites, mitigates systemic information asymmetries, and establishes clear parameters of adequacy across an entire financial ecosystem.

Beyond validating the theoretical mechanics of the outcomes-based cycle, this study offers a distinct contribution to the international literature on supervisory effectiveness by establishing a multi-tiered framework for empirical validation. The paper establishes that the regulatory utility of supervisory outreach must be rigorously measured across three sequential dimensions: [a] transmission, [b] remediation, and [c] ultimate outcome effectiveness. This methodology demonstrates that for a supervisory intervention to remain testable, it must embed explicit, quantitative criteria, such as regulatory return timeliness and data validation metrics, directly within its qualitative soft-law communications. Comparative analysis with the long-standing frameworks of peer international institutions, including the Central Bank of Ireland, the UK Financial Conduct Authority, and the Bank of England's Prudential Regulation Authority, confirms that the strategic positioning of these letters acts as a vital bridge within the supervisory action hierarchy. They provide a structured, *ex ante* opportunity for sector-wide remediation, maximising institutional alignment prior to the triggering of formal administrative sanctions or subsequent retesting phases.

Ultimately, the policy implications derived from this study extend vital insights to small state financial supervisors operating under structural resource constraints. Faced with the asymmetric challenge of supervising complex, cross-border financial sectors and fast velocity technology markets with inherently finite human and budgetary assets, financial regulators cannot sustain exhaustive, firm-by-firm inspection methodologies for the entire financial sector. The MFSA model provides a highly scalable alternative blueprint, proving that targeted, high-level executive communication can serve as a primary operational lever to achieve convergence and maintain robust market oversight. By establishing unambiguous, metrics-based guidance, resource-constrained authorities can drive market-wide behavioural correction from a limited diagnostic sample, drastically lowering the long-term resource drain on subsequent verification phases. In an era marked by rapid technological mutation and heightened geopolitical risk, this outcomes-based methodology ensures that financial supervisors can efficiently preserve international market confidence, operationalise a pre-emptive supervisory posture, and achieve systemic resilience in a highly cost-effective and scalable manner.

