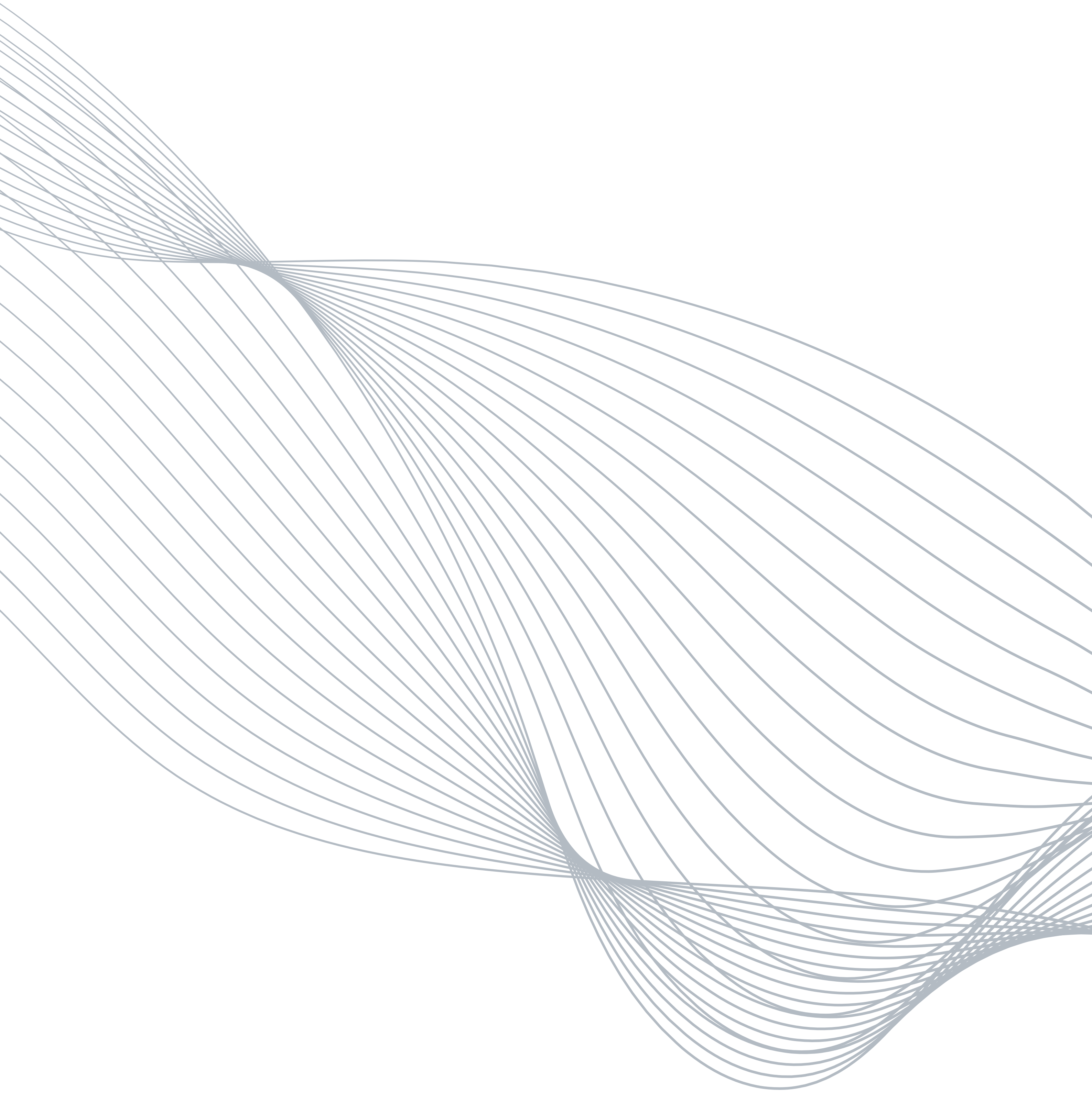
2021 ANNUAL REPORT

MFSA
MALTA FINANCIAL SERVICES AUTHORITY



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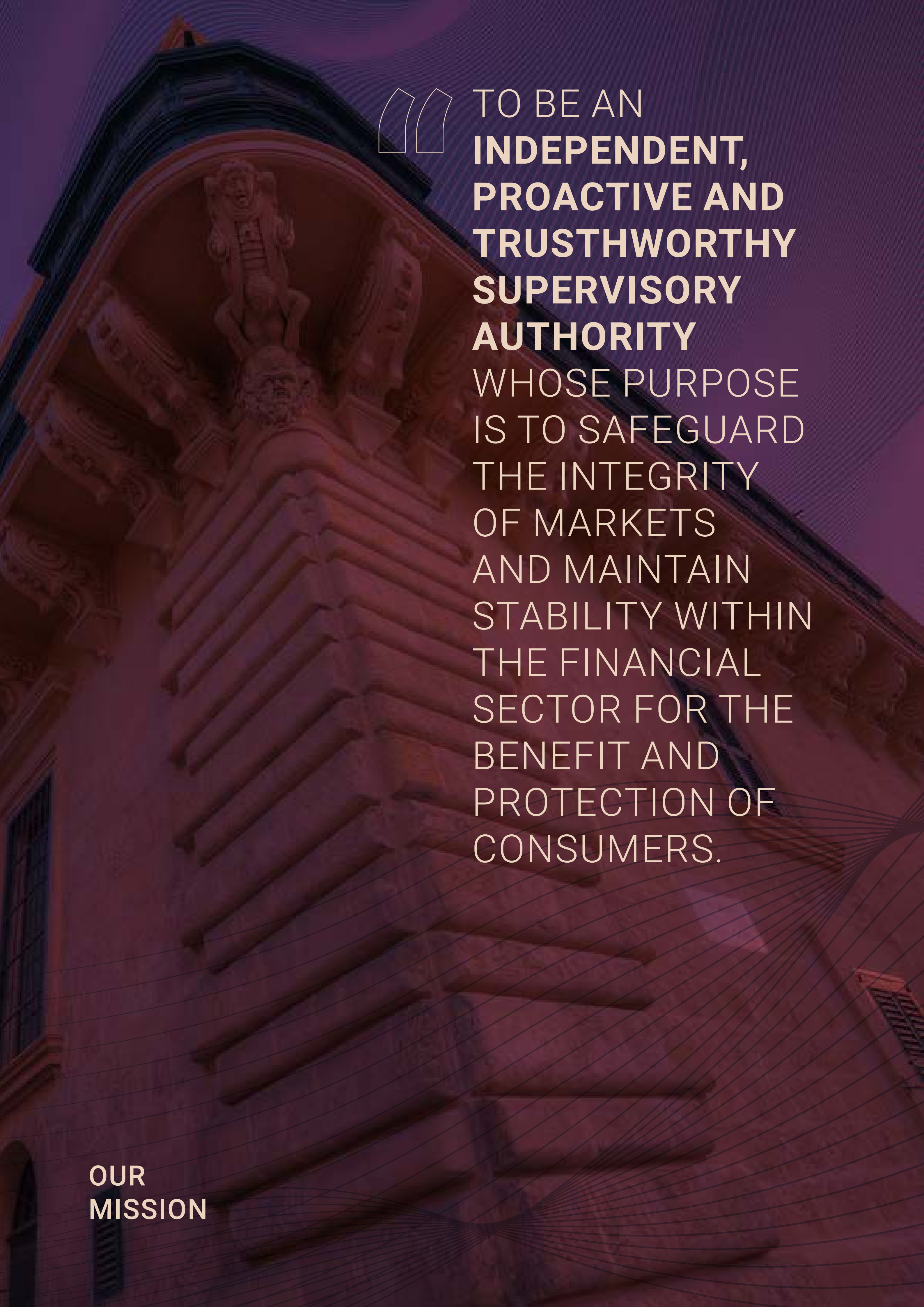

TO BE AN **INDEPENDENT, PROACTIVE AND TRUSTHWORTHY SUPERVISORY AUTHORITY** WHOSE PURPOSE IS TO SAFEGUARD THE INTEGRITY OF MARKETS AND MAINTAIN STABILITY WITHIN THE FINANCIAL SECTOR FOR THE BENEFIT AND PROTECTION OF CONSUMERS.

OUR MISSION

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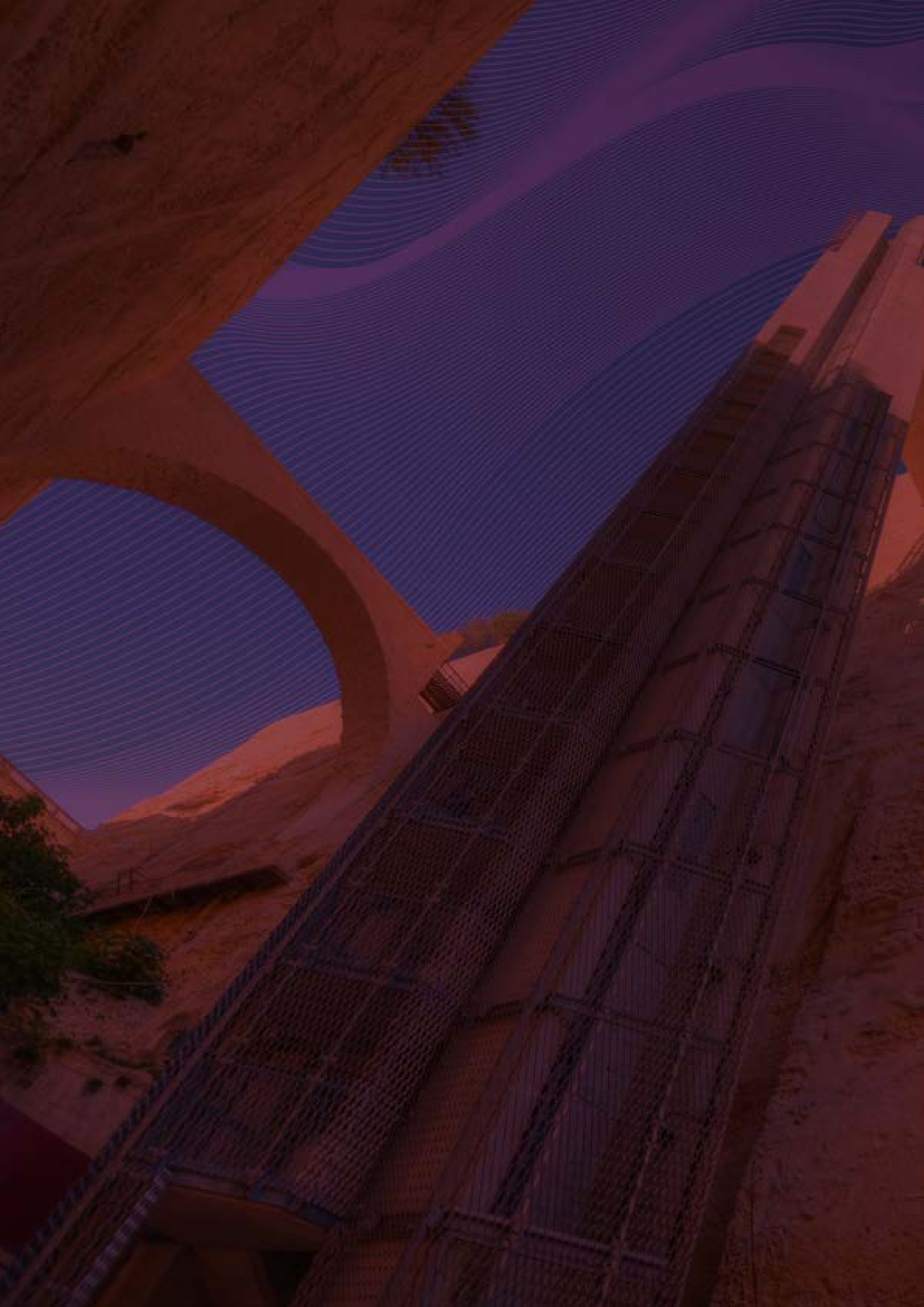
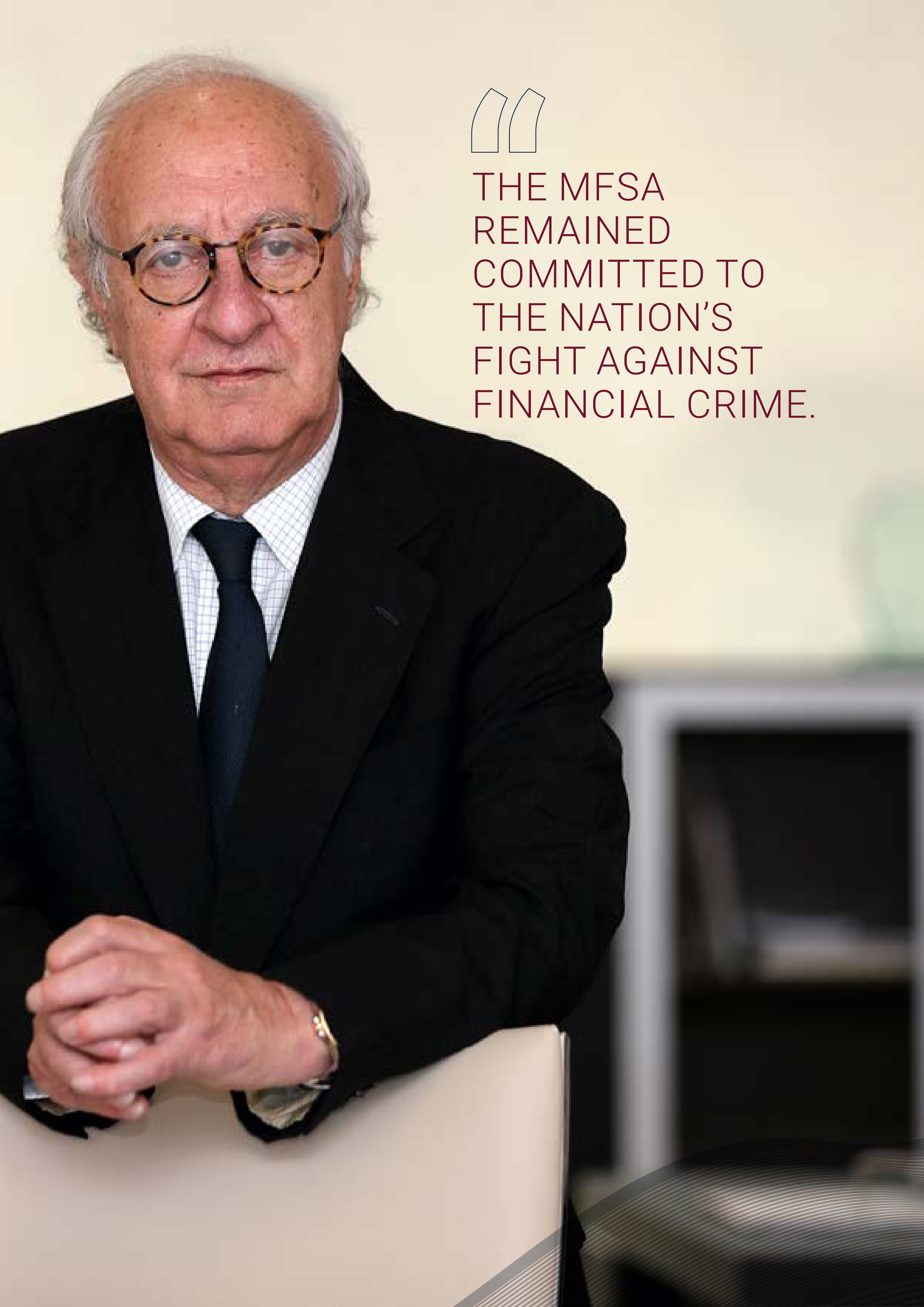


01
CHAIRMAN'S FOREWORD



"THE MFSA REMAINED COMMITTED TO THE NATION'S FIGHT AGAINST FINANCIAL CRIME.

CHAIRMAN'S FOREWORD

It is with pleasure that I present the Annual Report of the Malta Financial Services Authority for 2021, which was yet another challenging year for the local financial services sector. Notwithstanding, I am pleased to note that the industry remained resilient and financial services operators continued to choose Malta for their business.

As the world continued to battle with the COVID-19 pandemic and its impact on the economy, the MFSA too played a part in sustaining Malta's financial ecosystem, in line with our mission to safeguard the country's financial stability. It is encouraging to see a yearly increase in the employment generated within the financial services sector, as well as its contribution towards Malta's Gross Value Added, which growth is a testament to the robustness of the industry in Malta.

While the Authority has been set on achieving the objectives outlined in its Strategic Plan 2019-2021, in the past two years it has also shown remarkable agility. This holds true not only for its ability to adjust to the circumstances imposed upon it by the pandemic but also in the manner in which it adopts EU regulatory policies and implements the recommendations made by standard-setting agencies, such as MONEYVAL, the Council of Europe anti-money laundering (AML) body. Following the positive assessment reported by MONEYVAL in April 2021, the MFSA remained committed to the nation's fight against financial crime by providing support to the National Coordinating Committee on Combating Money Laundering and Funding of Terrorism (NCC). Our collaboration with other local competent authorities, such as the Financial Intelligence Analysis Unit (FIAU) and the Malta Business Registry (MBR) remains essential for us to be ahead of the game and make sure that our efforts in the face of this global challenge are truly systemic and effective.

All this would not have been possible without the direction provided by the Board of Governors and the excellent work of the Executive Committee in handling the day-to-day operations. Through everyone's valid contribution the Authority remained on course to achieve its targets and execute various regulatory projects, implement new regulations, accelerate further its supervisory effectiveness and improve its communication outreach. Among the key projects undertaken in 2021, I cannot fail to mention the rolling out of the new Company Service Providers (CSP) regime, the Authorisations Service Charter, the Capital Markets Strategy and the Asset Management Strategy.

While the Authority has registered excellent progress in 2021, we are well aware that the transformation process is an ongoing journey, and we will continue to work hard to ensure that the compliance culture is strengthened and risk management enhanced among regulated entities. Additionally, we are also committed to guiding the financial services sector towards the path of long-term sustainability. This means that the Authority will remain active and forward-looking in areas such as sustainable finance and digital finance.

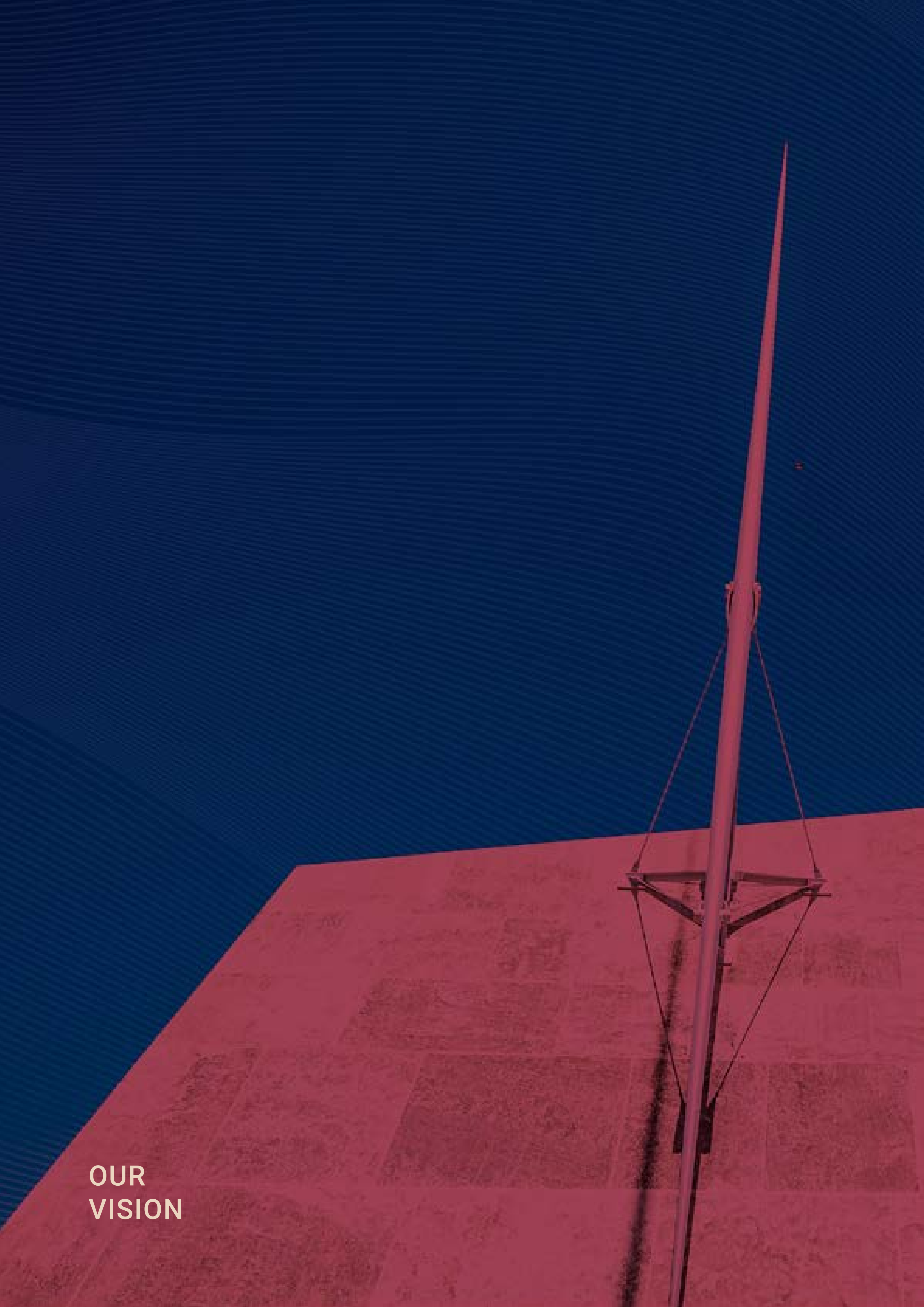
Without a doubt, we consider technology to be a primary enabler of most of the work carried out by the MFSA. A solid investment is being made in order for us to remain relevant and keep abreast with evolving trends. Thanks to our excellent team members, at all levels of the Authority, I am confident that we are well poised to respond to the dynamic nature of the financial services industry and the changes brought about by the fast-paced developments within the sector, while at all times ensuring that Malta's financial stability and market integrity are safeguarded.

As we look forward to achieving new milestones in the year ahead, I would like to extend my gratitude to the Board of Governors, the executive management team and all staff members for their valued contribution towards the attainment of the Authority's various goals.

John Mamo

Prof. John Mamo

Chairman



OUR VISION

> TO BE A **LEADING, FORWARD-LOOKING FINANCIAL SERVICES REGULATOR,** HAVING THE RESPECT AND TRUST OF THE INDUSTRY AND THE GENERAL PUBLIC, CONTRIBUTING TOWARDS A STRONG AND DYNAMIC FINANCIAL SECTOR.

02
CEO STATEMENT

THE FINANCIAL SECTOR CONTINUED TO PERFORM WELL DURING 2021.

CEO STATEMENT

INTRODUCTION

Having joined the Authority as Chief Executive Officer and (ex officio) member of the Board of Governors in September 2021, I am pleased and honoured to introduce this Annual Report, providing an overview of the Authority's performance in 2021.

In the first instance, I wish to highlight the valuable contribution of my colleague Dr Christopher P. Buttigieg as CEO ad interim and to acknowledge the full support that I have received from the Senior Leadership Team since joining.

Key challenges for Malta and the Authority during 2021 have been the continued expansion of the COVID-19 pandemic with its continuing adverse impact on the economy; and also the adverse consequences of the placement of Malta on the greylist for anti-money laundering and counter-terrorism financing compliance practices, by the Financial Action Task Force.

Notwithstanding these and many other challenges, the financial sector continued to perform well during 2021.

THE FINANCIAL SECTOR IN 2021

Turning to the banking sector, this has again proven its resilience in times of economic stress induced by the COVID-19 pandemic, and reputational and emerging geopolitical risks. These have coincided with an intensification in regulatory obligations and supervisory scrutiny aimed at further strengthening banks' resilience to systemic vulnerabilities. Here, our efforts have continued to focus on the consolidation of our supervisory systems, the sound development and growth of the banking system, and the standard of service delivery of credit institutions, in line with the effective implementation of the EU banking package.

Insurance continued during 2021 to be a consistently growing sector encompassing diverse business models. The strong legal and regulatory infrastructure has enabled the jurisdiction to develop into a cross-border insurance hub combining the effective application of EU regulation with an efficient assimilation of internationally established industry features.

The securities and markets sector operates in a highly competitive environment but has nevertheless maintained its momentum. The market for investment funds is a mature one, populated by a cross-section of retail and professional funds, and is well diversified by size, strategy and complexity.

We are committed to fostering and improving the competitive position of the securities and markets sector with an emphasis on improved processes, niche products, and development of a more institutional focus.

In more recent years, the legal infrastructure has also been developed to reflect the regulation and supervision of more innovative and technologically driven activities, particularly Malta's payment and electronic money services industry and the nascent sector in regulated digital finance assets. There has been a number of excellent examples of success stories of firms operating across banking, payments and digital finance during 2021.

2021 was a land-mark year in the introduction of regulation to CSPs. CSP and trustee services are widely considered to be the gatekeepers to the wider economy. Given the increased number of providers falling within scope of the new legislation, the Authority has focussed on placing transparency, risk awareness and 2-way communication at the centre of its push for continuous improvement of standards in this area.

During 2021, the Authority made significant progress in supervising financial crime compliance by including it across all authorisations and integrating it into prudential and conduct supervision.

Notwithstanding the constraints of COVID-19 during 2021, Enforcement increased significantly the volume of complex investigations, non-complex investigations, and enforcement actions.

Finally, Enforcement increased significantly its capacity to conduct due diligence exercises on admission of suitable firms and individuals into the financial sector and increased significantly the number of fitness and probity examinations during the period.

In conclusion, I wish to thank the Chairman and Board of Governors for their support and the executive management team and staff for their great efforts during 2021.

Mr Joseph M. Gavin

Chief Executive Officer

DEPENDABILITY

to act in a reliable, transparent and accountable manner at all times

EXCELLENCE

to have the right competencies to combine quality with efficieny to demonstrate professionalism and to contribute to the setting of high standards

INDEPENDENCE

refers to performing the Authority's duties without external influence

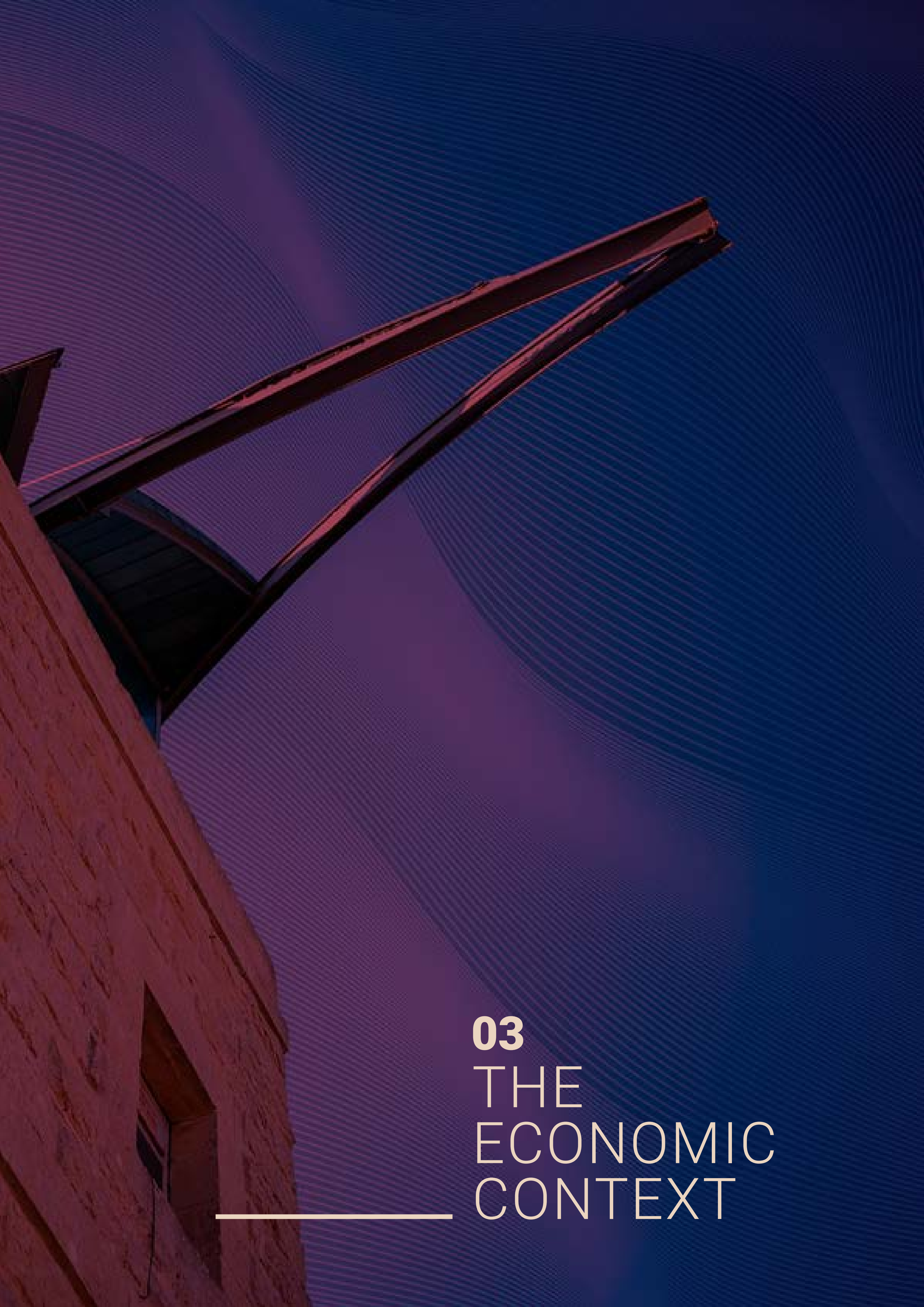
INTEGRITY

an integral part of our mission, guiding our actions and decisions

TRUSTWORTHINESS

to act with fairness, objectivity and respect when dealing with consumers and licence-holders

OUR VALUES



03 THE ECONOMIC CONTEXT

THE ECONOMIC CONTEXT

2021 was as extraordinary a year as 2020, with several abnormal developments resulting from the COVID-19 pandemic. As part of a wide-ranging response, the European Union rolled out the Recovery and Resilience Facility aimed at mitigating the economic and social impact of the coronavirus pandemic and making European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. The facility made available €723.8 billion in loans (€385.8 billion) and grants (€338 billion) with Malta benefitting from €316.4 million. Moreover, the local Government assisted businesses that were negatively impacted by the pandemic while stimulating demand through a number of initiatives. However, supply chains remain disrupted and present the biggest constraint to economic growth. This has also resulted in an increase in inflation which started to take a grip on the international and local economy in the latter part of 2021.

Notwithstanding the developments experienced in 2021, the National Statistics Office (NSO) stated that the Maltese economy in 2021 grew by 9.4% in real terms. The Central Bank of Malta (CBM) reports that the local economy is expected to grow by a further 6.5% in 2022. Unemployment fell to a record low of 3.4% by the end of 2021 and is expected to remain stable in 2022. The NSO reported that as at December 2021, inflation stood at 0.7% since prices only started to rise in the latter part of the year. This figure is expected to more than triple to 2.7% in 2022. The consolidated fund is expected to register a deficit of 9.4%[1] in 2021 and 6.2% in 2022. As a result, General Government Gross Debt to Gross Domestic Product (GDP) is expected to increase from the 53.4% registered in 2020 to 60.6% by the end of 2022.

Table 1: Economic indicators. Source: NSO

	2020	2021	2022 (F)
Real GDP growth rate (%)	-8.3	7.2	6.0
Financial Services Sector* real GVA growth rate (%)	5.4	4.3	
Unemployment rate (%)	4.5	3.6	3.5
General Government Balance to GDP (%)	-9.7	-9.4[1]	-6.2
General Government Gross Debt to GDP (%)	53.4	58.7	60.6
Inflation rate (%)	0.8	0.7	2.7

GROSS VALUE ADDED (GVA) GENERATED FROM THE FINANCIAL SERVICES SECTOR

THE LOCAL CONTEXT

Over the past years, the GVA generated by the financial services sector grew from just over €800 million in 2017 to around €1 billion in 2020. Even though the general economy contracted by 7% in 2020, the GVA generated by the financial services sector for that year grew by over 5% and by a further 4.3% in 2021.

1 2021 forecasted data from Central Bank of Malta: Outlook for the Maltese Economy 2021-2024 (December 2021)

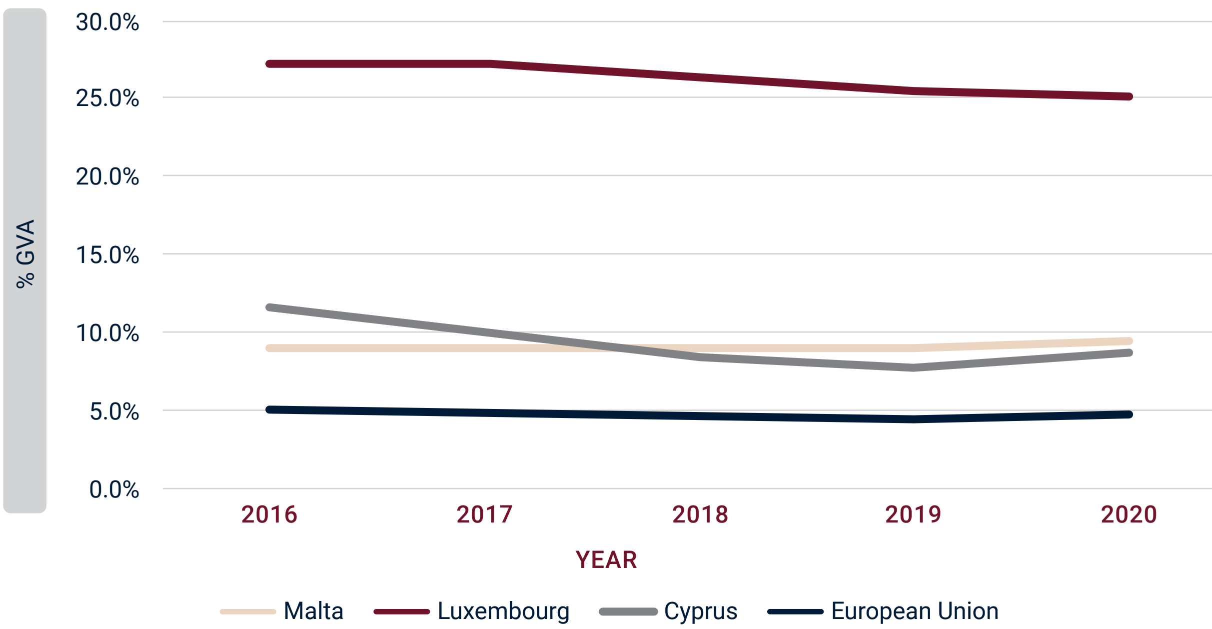
FIGURE 1 · *GROSS VALUE ADDED - FINANCIAL SERVICES SECTOR (€ MILLIONS)*

Source: NSO

THE INTERNATIONAL CONTEXT

Within the European context, between 2016 and 2020, the financial services sector accounted for 4.6% of the total GVA generated within the 27 European Union (EU) countries (excluding the United Kingdom). In comparison, over the same period, the GVA generated by financial services in Malta amounted to 9.0% of the total. As a result, Malta ranks fifth in the European region and third within the EU when it comes to GVA derived from the financial services sector. Among the top three countries with the highest financial services share of GVA – Luxembourg (26.1%), Cyprus (9.1%) and Malta (9%) – Malta was the only one that registered GVA growth in the sector in 2021.

FIGURE 2 · *SHARE OF GVA FROM FINANCIAL SERVICES*

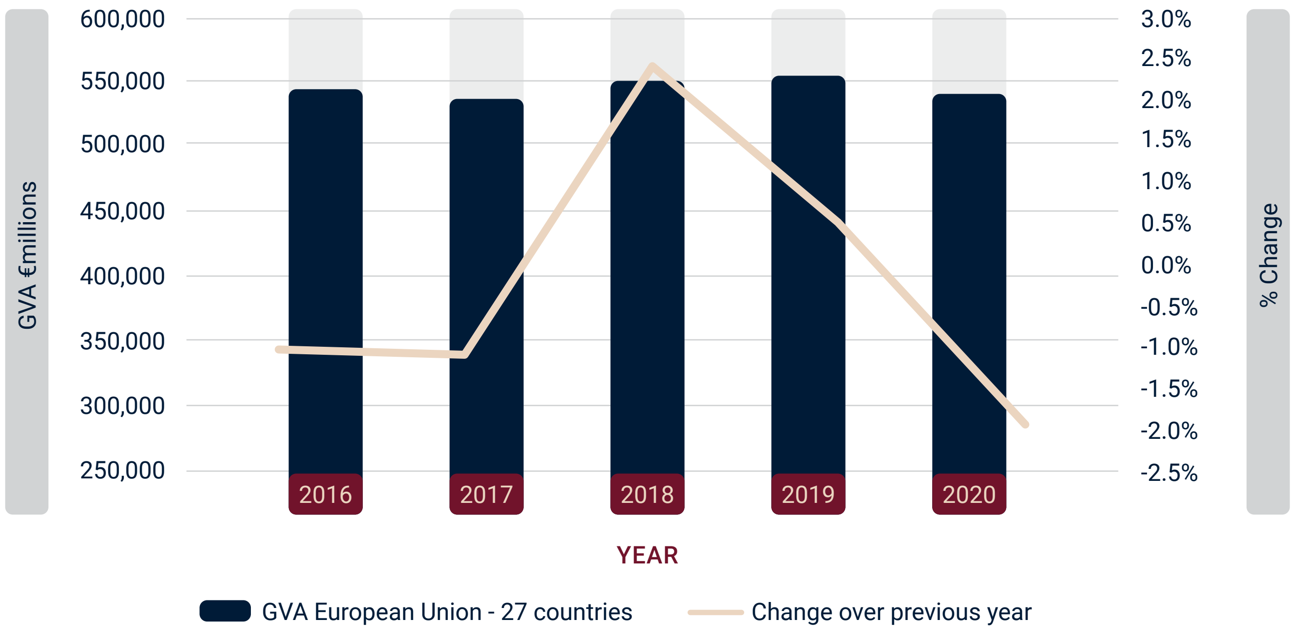


Source: Eurostat

03

In contrast to what occurred in Malta, where the GVA generated from financial services increased year on year, the EU registered a decrease in GVA generated from financial services between 2018 and 2020.

FIGURE 3 · *GVA FROM FINANCIAL SERVICES*



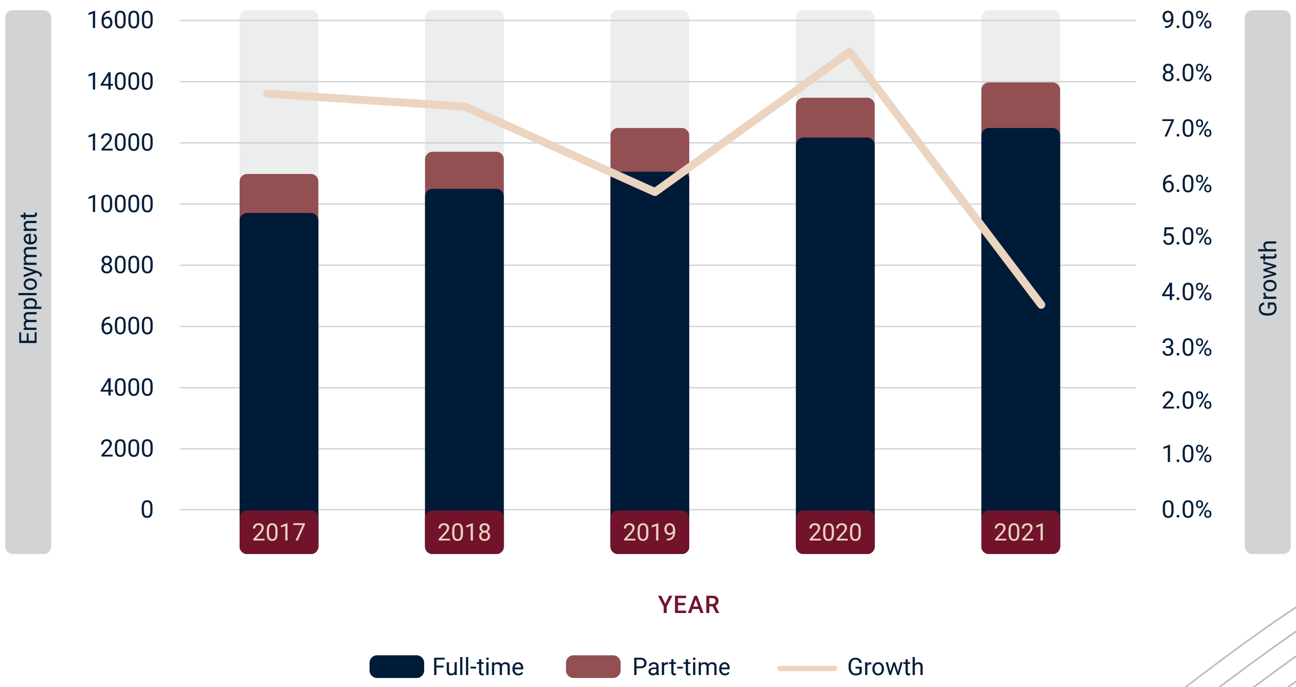
Source: Eurostat

EMPLOYMENT CREATED WITHIN THE FINANCIAL SERVICES SECTOR

THE LOCAL CONTEXT

The past two years have presented all sectors with unprecedented challenges including those related to employment. Nonetheless, in Malta, employment within the financial services sector grew by 8.4% in 2020 and by a further 3.4% in 2021. This highlights both the resilience of the sector as well as its importance to other sectors.

FIGURE 4 · *EMPLOYMENT IN FINANCIAL SERVICES*



Source: NSO

THE INTERNATIONAL CONTEXT

Within the EU, total employment attributed to financial services amounts to just 2.4% of total employment. However, in Malta this percentage is much higher at 5.4%, second only to Luxembourg with 10.8%. A noteworthy point is that the share of employment attributed to financial services is lower than the share of GVA. This shows that fewer employees can generate more GVA, indicating that the financial services sector is a high-quality sector. This characteristic is noted in Malta as well as in all other EU countries.

OUTLOOK FOR THE FINANCIAL SERVICES SECTOR

ECONOMIC FORECASTS AND VARIABLE FACTORS

According to the latest macroeconomic forecast for Malta published by the European Commission[2], the outstanding performance in the first three quarters of the year fuelled growth, as the recovery in Malta's public health allowed for a major easing of restriction measures. The economy was helped by improved business and consumer morale, as well as a revival in tourism. The surge in COVID-19 infections in late 2021, the tightening of restrictions, low tourist numbers, continued disruptions in global value chains, and negative effects of price increases in shipping and transportation are all expected to have a negative impact on growth in the fourth quarter of 2021 and the first quarter of 2022.

Growth is predicted to pick up again in 2022 as domestic demand improves, aided by the Recovery and Resilience Plan's implementation. In 2022 and 2023, real GDP is expected to expand by 6.0%and 5.0%, respectively. Malta's economy is predicted to recover to pre-pandemic levels by the middle of 2022.

A limited downside risk remains related to possible consequences of the June 2021 decision of the Financial Action Task Force (an inter-governmental body against money laundering) to add Malta to the list of jurisdictions under increased monitoring. Another risk which could not be quantified at the time of publication is the impact of the invasion of Ukraine.

EUROPEAN COMMISSION'S BUSINESS AND CONSUMER CONFIDENCE INDICATORS

The Economic Sentiment Indicator (ESI) for Malta was 102.2 in January 2022, up from 97.5 in December, according to the European Commission. Following the current uptick, sentiment increased slightly over its long-term average of roughly 100.0 and stayed considerably above its January 2021 low (see Table 2). It was, however, lower than the euro area average of 112.7.

In Malta, sentiment increased month over month in all sectors, with the exception of consumer confidence and the retail sector. The services sector which includes the financial services sector had the greatest rise. Construction, services and retail sectors had good sentiment in January, whereas industry and, to a lesser extent, consumers expressed negative sentiment.

2 Date of publication: 10 February 2022

Table 2: Business and Consumer Surveys - Malta
Balances; percentage points; seasonally adjusted

	2020	2021	2021		2022
			Jan.	Dec.	Jan.
ESI	**81.5**	**105.2**	**86.1**	**97.5**	**102.2**
Services confidence indicator	**-24.9**	**13.5**	**-5.3**	**-9.0**	**4.4**
Business situation development over the past 3 months	-36.3	4.7	-12.3	-16.1	-5.5
Evolution of the demand over the past 3 months	-34.9	9.9	-10.5	-7.4	23.2
Expectation of the demand over the next 3 months	-3.7	26.1	6.7	-3.7	-4.4
Construction confidence indicator	**-5.7**	**6.6**	**-1.2**	**6.4**	**13.8**
Evolution of your current overall order books	-6.2	0.8	-3.4	-0.3	11.5
Employment expectations over the next 3 months	-5.2	12.4	0.9	13.2	16.2
Industrial confidence indicator	**-25.1**	**2.7**	**-24.0**	**-8.7**	**-3.4**
Assessment of order-book levels	-48.8	-28.0	-41.4	-34.9	-12.7
Assessment of stocks of finished products	27.2	-3.5	36.0	-8.1	-19.1
Production expectations for the months ahead	0.8	32.8	5.5	0.6	-16.8
Consumer confidence indicator	**-5.6**	**3.0**	**-3.2**	**-0.3**	**-0.7**
Financial situation past 12 months	-1.6	-10.1	-15.4	-9.0	-11.3
Financial situation next 12 months	0.8	7.2	4.3	0.2	-0.9
Economic situation next 12 months	-0.9	18.9	8.7	6.5	4.4
Major purchases next 12 months	-20.5	-3.9	-10.4	1.0	5.0
Retail trade confidence indicator	**-31.0**	**-11.4**	**-51.4**	**35.9**	**9.0**
Business activity, past 3 months	-22.2	-18.1	-51.6	35.5	-13.5
Stocks of finished goods	31.9	14.2	50.3	-29.5	-36.3
Business activity, next 3 months	-38.8	-2.0	-52.4	42.8	4.1

COVID-19

The COVID-19 pandemic led to timely policy response measures, which included Government support and fiscal incentives, together with regulatory and supervisory responses, having the common objective of cushioning the inevitable shocks that emanated from the pandemic. Measures of significant importance that contributed to maintaining stability within the Maltese financial system include the implementation of moratoria on loan repayments, temporary suspension of certain borrowers' repayment obligations, the setting up of a COVID-19 Guarantee Scheme administered by the Malta Development Bank, and guarantee facilities for loans to businesses directly impacted by the pandemic. These measures, together with others, were fundamental in enabling continued support to the economy through the channelling of funds towards businesses and households that required financing during the turbulent period.

Some challenges emanating from the pandemic included:

- COVID-19 gave rise to several issues, such as the need to adapt technology as well as **staff shortages** resulting from staff being infected or in quarantine, while travel restrictions affected the foreign workforce.
- Attracting and **recruiting talent locally** has proven to be more challenging for licence-holders due to COVID-19. This also extends to Board and executive management positions which have been hard to fill, also due to regulators' expectations for appropriate diversity in their structures. Travel restrictions introduced to curtail the spread of the disease also posed difficulties for prospective applicants wishing to relocate to Malta.
- **Insurance and pension companies** were impacted by **low levels of interest rates**, as well as financial instability and uncertainty as a result of its prolongation.
- **Credit challenges for banks**: Banks are monitoring the impact of the withdrawal of government and regulatory support measures to ensure they correctly identify credit risk embedded in their portfolios.
- **Attracting business has been harder**, especially for companies in their early stages. For **VFA Agents**, in particular, the COVID-19 pandemic made it more difficult for them to attract new VFA business to Malta, notably because such business was generally being acquired through a strong presence at sector-specific conferences and during networking events.

- As happened in the previous year, 2021 saw **an increase in financial scams** as scammers continued to seize opportunities to profit from the pandemic and exploit the vulnerable. In view of this, in 2021 the Authority received a substantial number of consumer complaints which contributed to the publication of 38 Public Warnings.

- Having **services being offered through digital means** can be both a challenge and a threat as service providers need to ensure that consumers are receiving the information they need to make informed decisions.

- **Inflationary pressures** are expected to emanate from imported goods and higher transportation costs.

- Several enterprises and people were confronted with **liquidity issues** as a result of the COVID-19 outbreak and associated containment efforts, and consequently applied to Monetary Financial Institutions in Malta for a loan repayment moratorium (see below). As many debtors' moratoria periods are progressively expiring and economic activity continues to normalise in most sectors, loans subject to a moratorium have dropped regularly since August 2020, reaching very low levels recently.

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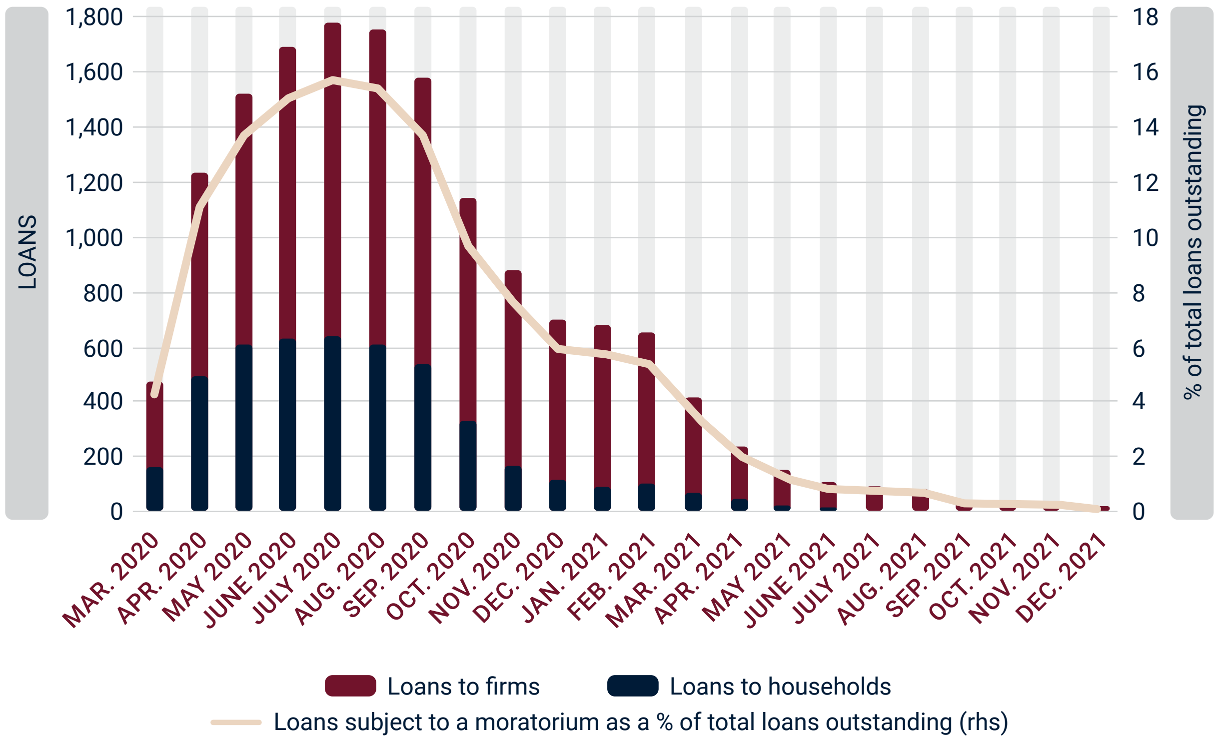
FIGURE 5 · *LOANS SUBJECT TO MORATORIUM ON REPAYMENTS*



Source: CBM

Notwithstanding these observations, in general, the market has shown a good degree of operational resilience as highlighted by the GVA figures registered during 2020 and 2021.

BREXIT

The Authority will continue to monitor developments in this area as they may evolve. Although some of the MFSA's 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. This does not mean that other pillars of the economy have not been negatively affected.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

ESG is another pillar that is 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. Corporate sustainability is thus all about generating long-term value through the implementation of strategies that consider ESG factors in addition to economic ones.

Green bonds, which are financial instruments that finance green projects, are expected to gain more popularity as more people become more conscious about the environment. Moreover, the European Central Bank (ECB) believes that the EU's Green Bond Standard (GBS) should become a mandatory green label. From the perspective of the ECB, mandating the EU GBS would help to align issuances and investor expectations, supporting rules-based approaches to engaging with the green bond market.

Firms need to commence preparations for the impact of climate change on their medium-term viability in an uncertain environment. This will require banks and payment firms to evaluate the impact climate change will have on businesses and their counterparties, and how this might affect their business volumes.

Another challenge for all licence-holders is their preparedness for new legal requirements including those in the area of sustainable finance.

The MFSA has issued a number of Circulars on the subject of sustainable finance, for different legislative instruments, focusing on the requirements emanating from European frameworks, as well as guidance presented by the European Supervisory Authorities (ESAs), and the MFSA itself. The MFSA also recently set up a central Sustainable Finance policy team. The Authority will continue monitoring developments taking place within ESAs and continue with its outreach to ensure that consumers are aware of their options and can make informed financial decisions.

Through its Financial Supervisors Academy (FSA), the MFSA shall also be providing training to its supervisors to upskill them in this space.

FINTECH AND INNOVATION

Building on the MFSA's 2019 FinTech Strategy, the Authority is committed to continuing its journey to support sustainable, technology-enabled financial innovation within the financial services sector. This will be ensured through a regulatory environment that is built on global standards, contributes to sustainable growth within the financial services market, and achieves investor protection, market integrity and financial soundness.

The effective alignment and transition of the VFA Framework to the Markets in Crypto-Assets Regulation (MiCA) is an opportunity for the MFSA to capitalise on its first-mover advantage and the experience it gained over the last few years, and thus it should be able to propel the local sector to new highs.

DIGITAL FINANCE PACKAGE

On 24 September 2020, the European Commission approved a digital finance package that included a digital finance strategy as well as legislative measures on crypto-assets and digital resilience.

The digital finance strategy lays broad recommendations for how Europe can help and govern the financial sector's digital transition in the next years. The four main objectives outlined in the strategy are: reduced fragmentation in the Digital Single Market; adaptation of the EU regulatory framework to support digital innovation; promotion of data-driven finance; and addressing the challenges and risks associated with digital transformation, including improving the financial system's digital operational resilience.

Expanding digital finance would benefit both Europe's economic recovery strategy and the greater economic revolution, providing new funding streams to support the Green Deal and Europe's New Industrial Strategy. Because digital finance makes cross-border transactions easier, it has the potential to strengthen Europe's economic and monetary union through improving financial market integration in the banking and capital markets unions.

FACILITATING ACCESS TO CAPITAL

The European Commission, through the proposed Listing Act (on which a public consultation closed on 11 February 2022), aims to make the listing of both equity and non-equity securities on EU public markets more attractive for companies, particularly small and medium-sized enterprises. The MFSA is closely monitoring any developments in this regard to make sure that the Authority and the relevant stakeholders are involved and aware of the possible opportunities which these areas may offer.

WHAT WE REGULATE

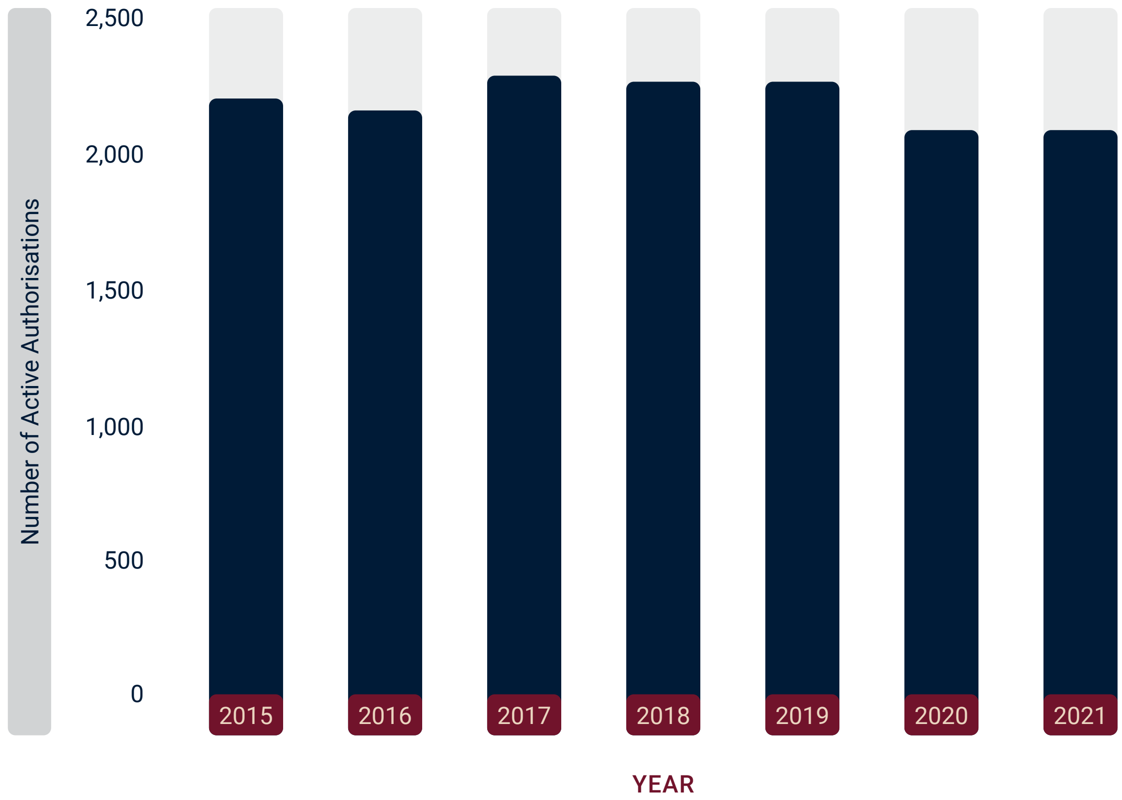
The Malta Financial Services Authority is the sole regulator of financial services in Malta. It was formally established by law as an autonomous public institution on 23 July 2002, taking over the regulatory functions previously performed by the Malta Stock Exchange (MSE), the Malta Financial Services Centre, and the CBM. The MFSA's Board of Governors also acts as the Resolution Authority.

The MFSA's remit covers all areas of the local financial system including credit institutions, financial and electronic money institutions, securities and investment services companies, trading venues, insurance companies, pension schemes, trustees and CSPs, as well as Persons authorised under the VFA framework.

As at end 2021, the MFSA regulated 2,075 authorised entities of varying size and complexity, a figure that remains consistent with the figures for 2020 (2,073).

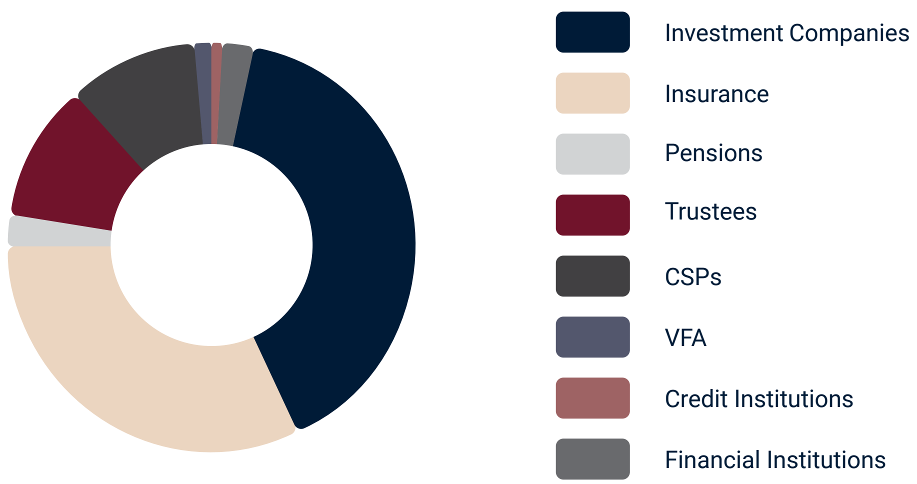
In 2021, the MFSA processed a total of 584 applications (2020:265), out of which 75% were approved and 25% were withdrawn or refused, the same percentages as the previous year.

FIGURE 6 · *NUMBER OF ACTIVE AUTHORISATIONS*



Source: MFSA

FIGURE 7 · *LICENCE-HOLDER POPULATION*



Source: MFSA

04
HOW WE ARE STRUCTURED

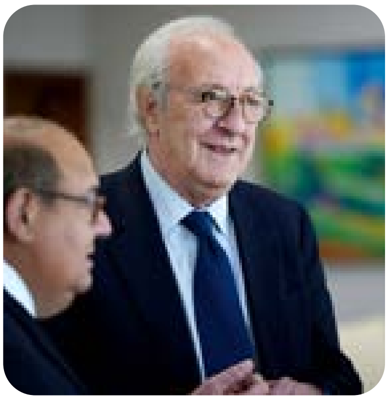
HOW WE ARE STRUCTURED

ORGANISATION

The MFSA was established in 2002 by the Malta Financial Services Authority Act (Cap. 330). The Authority is the single regulator for the financial services sector in Malta, including credit and financial institutions, securities and investment service companies, recognised investment exchanges, insurance companies and intermediaries, pension schemes, company service providers, trustees and virtual financial assets. It is also responsible for the approval of prospectuses and admissibility to listing.

BOARD OF GOVERNORS

The Board of Governors is responsible for establishing the policies and risk parameters to be pursued by the Authority. In determining such policies, the Board of Governors follows policy guidelines as set out by Government and the MFSA Act. The Board of Governors is also responsible for advising Government on matters relating to the development and regulation of the financial services sector. The Chairman and the members of the Board are appointed by the Prime Minister for a term not exceeding five years.



Prof. John Mamo

Chairman

Mr Joseph M. Gavin

Governor and Chief Executive Officer (appointed on 13 September 2021)

Dr Christopher P. Buttigieg

Governor and Chief Executive Officer ad interim (up to 12 September 2021)

Dr Carmel Cascun

Governor

Mr Mark Galea

Governor

Prof. Edward Scicluna

Governor

Dr Stephanie Vella

Governor

Prof. Philip Von Brockdorff

Governor

Mr Charles Zammit

Governor

Mr John Sammut

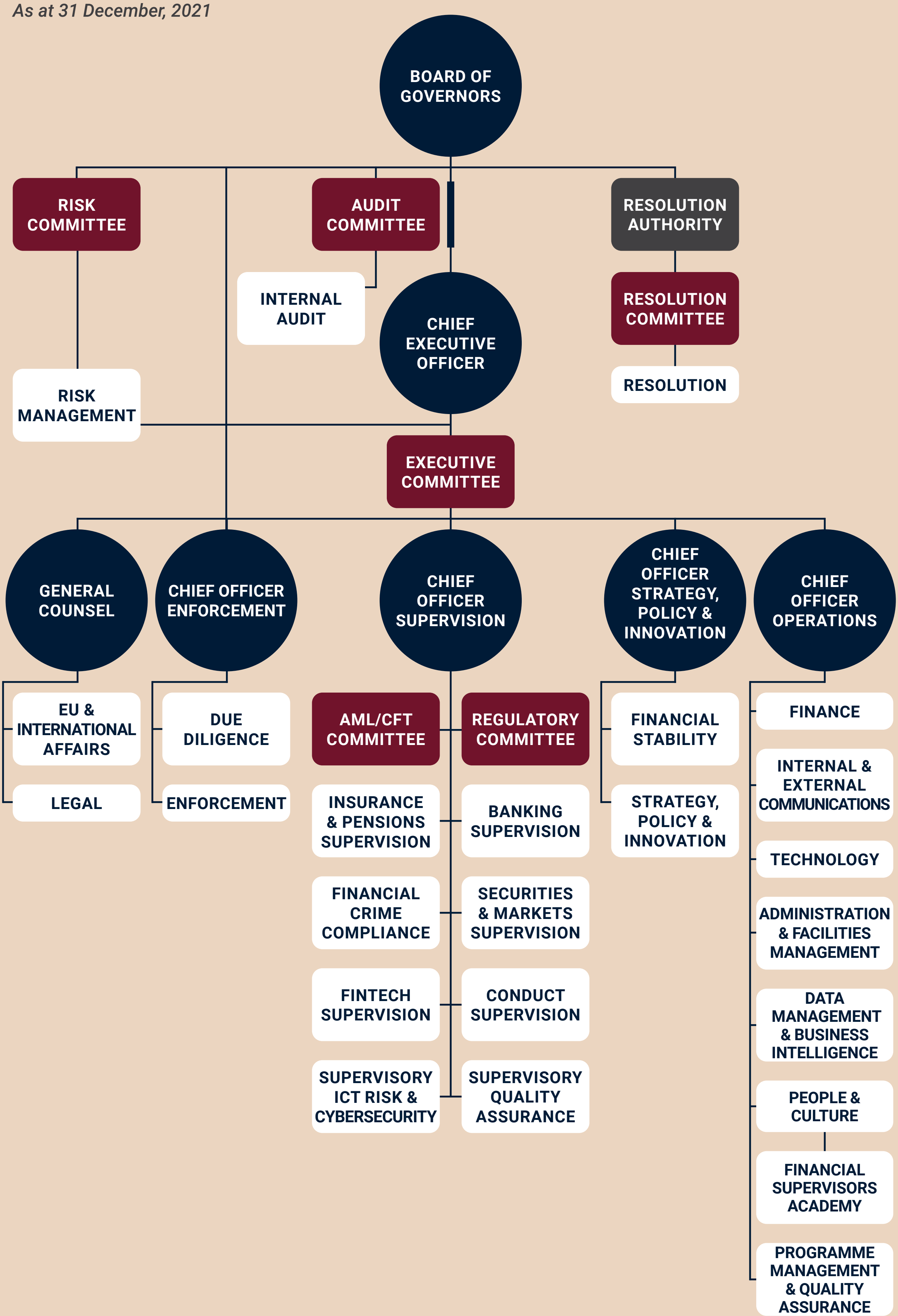
Secretary
(appointed on 12 February 2021)

Ms Sephora Scerri

Secretary
(up to 11 February 2021)

MFSA ORGANISATIONAL CHART

As at 31 December, 2021



COMMITTEES

EXECUTIVE COMMITTEE

The Executive Committee (ExCo), appointed in terms of Article 9 of the MFSA Act, is the main organ of the Authority, being responsible for the implementation of the strategy and policies of the MFSA. Approvals related to regulation as well as those required for the issuing of licences and other authorisations also fall under the responsibility of this Committee. It is also entrusted with the monitoring and supervision of entities licensed or authorised by the Authority in the financial services sector, as well as the enforcement of the regulatory framework in this same sector. It also makes recommendations to, and otherwise assists, the Board of Governors in the admissibility to listing of financial instruments. ExCo is also responsible for the overall performance of the Authority including its financial affairs, human resources, and ancillary services, as well as the general coordination and management of the Authority's administrative and operational affairs.

Mr Joseph M. Gavin

CEO and Chair of ExCo
(from 13 September 2021 to date)

Dr Christopher P. Buttigieg

CEO ad Interim and Chair of ExCo
(until 12 September 2021)
Chief Officer Supervision

Dr Edwina Licari

General Counsel

Dr Michelle Mizzi Buontempo

Chief Officer Enforcement

Dr Michael Xuereb

Chief Officer Strategy, Policy and Innovation

Ing. Ivan Zammit

Chief Operations Officer

Ms Rosalie Tanti

Secretary

04

RESOLUTION COMMITTEE

The Resolution Committee is appointed by the Resolution Authority, whose composition, powers and functions are governed by provisions set out in the First Schedule to the MFSA Act and the Recovery and Resolution Regulations (RRR).

The Resolution Authority has assigned all its powers to the Resolution Committee which has all the necessary powers in order to carry out its functions. The Committee is ultimately responsible for taking resolution decisions pursuant to the MFSA Act and the RRR. It also interacts and collaborates closely with the Single Resolution Board (SRB) which is responsible for resolution matters at Banking Union level as established in the Single Resolution Mechanism Regulation.

The Resolution Authority and the Resolution Committee operate independently from each other and from the supervisory arm of the MFSA to ensure that the statutory responsibilities are achieved in a transparent and credible way, and to be in line with the provisions of the Bank Recovery and Resolution Directive (BRRD) as amended by the second BRRD.

MEMBERS

Ms Paulanne Mamo
Chairperson

Dr Philip Magri

Mr Emanuel Ellul
(until August 2021)

Dr John Consiglio
(from August 2021)

Dr Celine Talbot
Secretary

AUDIT COMMITTEE

The Audit Committee assists the Board of Governors in its oversight responsibilities with respect to internal governance and controls, financial statements, risk management and internal audit functions of the Authority. In line with the Audit Committee Charter, the Head of Internal Audit liaises directly with the chairperson of the Audit Committee on the agenda of the Audit Committee and any requests for information and audits.

MEMBERS

Prof. Philip von Brockdorff
Chairman

Dr Carmel Cascun

Dr Stephanie Vella

Ms Sera Underwood
Secretary

DIRECTORATES

The MFSA delivers its supervisory mandate through the concerted effort of a team of professionals which – as at end 2021 – amounted to 401 full-time equivalents. The Authority operates through five directorates, each of which addresses core functional areas:

- 01 SUPERVISION
- 02 ENFORCEMENT
- 03 STRATEGY, POLICY AND INNOVATION
- 04 OPERATIONS
- 05 LEGAL AND INTERNATIONAL AFFAIRS

There are also three functions which operate independently of the directorates:

- INTERNAL AUDIT
- RESOLUTION
- RISK MANAGEMENT

The following is a brief description of the functions pertaining to each directorate, as at 31 December, 2021.

SUPERVISION DIRECTORATE

Banking Supervision

While the ECB is responsible for the licensing and supervision of Significant Institutions (SIs) in Malta, the Banking Supervision Function provides resources to the joint supervision teams overseeing them.

The function is responsible for the authorisation and supervision of other banks, in line with its membership of the Single Supervisory Mechanism, as well as of payment firms and e-money providers. Offsite monitoring of financial and operational data is complemented by onsite inspections, normal and regulatory communications and competence interviews with executive and Board members.

Conduct Supervision

The Conduct Supervision Function establishes a regulatory framework to ensure that clients of financial services are treated fairly, honestly and professionally by regulated entities. A pre-emptive supervisory regime addresses potential or emerging risks for financial services consumers, while an operational regime strengthens the responsibilities of regulated persons to treat customers fairly. The function is also responsible for authorising and subsequently overseeing the conduct of trustees and corporate service providers.

Financial Crime Compliance

Financial Crime Compliance is a supervisory function dedicated to preventing the use and involvement of authorised persons in money laundering and financing of terrorism, by ensuring that they comply with the relevant legislation and procedures. It monitors international sanctions and other restrictive measures, providing regulated entities with information and guidance. It also collaborates externally with the FIAU, the National Coordinating Committee for AML/CFT, the Sanctions Monitoring Board (SMB) and other national and international stakeholders.

FinTech Supervision

The FinTech Supervision Function provides cross-sectoral expertise on digital finance and FinTech-related regulatory and supervisory initiatives. The function is responsible for the supervision of the VFA sector under the VFA Framework in Malta, the development and implementation of the MFSA's FinTech initiatives, the operationalisation of the Regulatory Sandbox as well as coordination of the implementation of the Digital Finance Package within the MFSA.

Insurance and Pensions Supervision

Insurance and Pensions Supervision is responsible for the prudential oversight of authorised insurance and reinsurance undertakings, insurance intermediaries, retirement schemes, retirement funds and retirement service providers, including business carried out in an EU Member State or the European Economic Area via freedom of services and freedom of establishment.

Securities and Markets Supervision

The Securities and Markets Supervision Function authorises and supervises activities in the investment services sector, comprising collective investment schemes and their service providers including asset managers, depositaries and fund administrators, investment firms, trading venues, central securities depositaries, central counterparties and benchmark administrators. It also regulates and oversees trading activity within capital markets. Applications for the admissibility to listing of financial instruments on regulated markets are vetted in terms of the prospectus and transparency regulatory regimes.

Supervisory ICT Risk and Cybersecurity

The Supervisory ICT Risk and Cybersecurity Function supervises licence-holders in the areas of ICT risk and cybersecurity, and the management of risks associated with ICT outsourcing, collectively the area of digital operational resilience.

The function also contributes to local and foreign working groups at a national and European level, and works closely with the Ministry for Finance and Employment on legislative proposals relating to digital operational resilience.

Supervisory Quality Assurance

The Supervisory Quality Assurance (SQA) Function is a control function, serving as a second line of defence within the MFSA, with the main objective of developing a quality-focused culture within the supervisory functions and to provide assurance to management regarding the quality of supervisory activities and deliverables, specifically in terms of consistency, effectiveness, efficiency and timeliness.

To achieve this, SQA is involved from inception in new projects and whenever there are changes in supervisory procedures.

ENFORCEMENT DIRECTORATE

Due Diligence

The Due Diligence Function ensures that persons holding or being proposed to take on a controlling function within entities licensed by the MFSA are of good repute as part of the wider fitness and properness assessment across the various functions, on an ongoing basis. Among its responsibilities, the function also oversees ongoing due diligence to ensure continued integrity, name screening of all functionaries and other tasks such as the vetting of prospective Highly Qualified Persons.

Enforcement

The Enforcement Function investigates possible breaches of financial services laws and regulations in relation to persons or entities authorised and supervised by the MFSA. Any regulatory action undertaken is published on the MFSA website.

The function also investigates those providing financial services activities without the necessary licence or authorisation, or carrying out fraudulent activities and scams relating to financial services, issuing warnings, notices and public guidelines to protect investors and raise consumer awareness.

STRATEGY, POLICY & INNOVATION DIRECTORATE

Financial Stability

The Financial Stability Function safeguards the financial sector's resilience through the identification and mitigation of current and emerging risks, which could cause significant strain on the sector and the economy. The function also assists stakeholders – such as the ECB, European Systemic Risk Board (ESRB), International Monetary Fund (IMF) and credit rating agencies – with analysis and subsequent reports. The function also contributes to policy recommendations in collaboration with other macroprudential authorities and actively participates in projects by reputable international organisations.

Strategy, Policy and Innovation

The Strategy, Policy and Innovation Function provides advice, analysis and reviews on strategies and policies, as well as identifying new areas of development to strengthen Malta's financial services regulatory framework. The function ensures that the Authority is proactive in the face of new opportunities, perceived risks and changing international standards, while fostering innovation and enhancing access to financial products, further positioning Malta as a jurisdiction of choice.

OPERATIONS DIRECTORATE

Administration and Facilities Management

The Administration and Facilities Management Function oversees and manages the Authority's building management services, supports administration by providing oversight of the cleaning and security services, and manages the centralised travel desk, hospitality and transport services, and the Reception. Its mission is to support MFSA staff by maintaining a safe and operational working environment, through regular preventive maintenance programmes and renovation/refurbishment projects.

Communications

Communications handles all internal and external communications, aiming to maintain positive relationships with stakeholders and keeping its own employees, licence-holders and the public up to date. It organises B2B and consumer education campaigns, and events, and is also the designated brand guardian of the MFSA, managing its various digital and offline platforms.

Data Management and Business Intelligence

The Data Management and Business Intelligence (BI) Function is responsible for driving data governance, data quality management and integrity, as well as data architecture across the whole organisation – a crucial element of risk-based supervision. As part of its remit, the function is responsible for managing a centralised data warehouse and BI analytics platform to provide ongoing insights, analyses and dashboards for end-users.

Finance

The Finance Function oversees and manages the finances of the Authority, supporting other functions in all financial matters, including the preparation of management information, revenue collection, payments to suppliers and service providers, payroll and financial control, and budgetary control. The function also administers the MFSA's financial control framework ensuring compliance with established policies and controls. Furthermore, the team is also responsible for the submission of statutorily required financial information to Parliament as well as to obtain goods and services in line with Public Procurement Regulations.

People and Culture

The People and Culture Function provides human resources essential for the fulfilment of the MFSA's mandate, covering recruitment, retention, and learning and development. Adopting an HR Business Partner approach to talent management, the function places employees at the heart of the Authority's mission, reflecting the drive being undertaken to bring about change and organisational growth. The team implements other staff-related provisions, including the MFSA Ethics Framework, Occupational Health and Safety, and training programmes under the FSA.

Programme Management and Quality Assurance

The Programme Management and Quality Assurance Function ensures strategic alignment across the Authority, enabling it to achieve operational efficiency and effectiveness through digitisation and digitalisation. The function provides a holistic programme oversight to the MFSA's ExCo, aligns project priorities with the strategic objectives and articulates a project's interdependencies to plan demand capacity. Programme Management is also responsible for the quality assurance of project deliverables and operational process improvements.

Technology

Technology drives the continuously evolving Authority to perform in a more efficient and effective manner while sustaining adequate, timely and knowledgeable decisions. The team leverages cutting-edge technology, industry standards and methodologies to provide reliable services to the rest of the organisation and to the financial services sectors it regulates. The function is responsible for technology design, information security, development, integration and delivery of the information, and communications infrastructure, platforms and services.

LEGAL AND INTERNATIONAL AFFAIRS DIRECTORATE

EU and International Affairs

The EU and International Affairs Function ensures that the MFSA has an active role in international forums. The function coordinates relations with international organisations and memoranda of understanding with foreign regulators, as well as handling exchange of information requests. The function advises Government on the formulation of financial services policy, mainly relating to proposals issued by the European Commission, particularly when it comes to taking a national position in this sector.

Legal Affairs

The Legal Affairs Function provides legal advice across the organisation, also drafting and/or vetting legal documents involving the Authority. The function attends to any MFSA-related litigation matters, including the preparation and filing of judicial acts, any legal or judicial submissions, as well as any other work necessary in preparation for court or tribunal sittings. The function also coordinates and oversees the legislative process falling under the administration of the MFSA, including amendments or new laws required to transpose EU Directives or implement EU Regulations.

OTHER MFSA FUNCTIONS

Internal Audit

The Internal Audit Function is accountable to the Audit Committee and reports to the Board of Governors. The function assists the Authority to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the internal risk management, control and governance processes.

Resolution

Resolution operates independently from the Supervisory Directorate and other functions and is primarily responsible for resolution-planning activities for credit institutions and certain investment services firms, and for the policies and legislation forming the Resolution Framework. The same responsibilities will eventually extend to central counterparties and insurance undertakings. The Board of Governors is the designated resolution authority in Malta, however, the MFSA's Resolution Committee is the decision-making body, advised by the function as to whether an institution should go into liquidation or resolution, and on the application of resolution tools, as necessary.

Risk Management

Risk Management is responsible for risk oversight and therefore oversees the organisation and development of work processes for the identification, management and reporting of risk within the Authority. The team is responsible for keeping the risk control framework under review, providing strategic input and direction with regard to the Authority's risk appetite, and ensuring compliance with European supervisory authority standards. Risk Management reports to the Risk Committee, an independent committee of the MFSA Board of Governors.

05

OUR PRIORITIES

OUR PRIORITIES

During 2021, the MFSA remained focused on developing a robust regulatory framework as outlined in its Supervisory Priorities for the year and the Strategic Update issued in April 2021.

This chapter is intended to deliver a solid overview of the Authority's activities during 2021. To achieve this, it is composed of two sections as follows (i) Section 1 – Our Cross-sectoral Priorities; (ii) Section 2 – Our Sector-specific Priorities.

SECTION 1 - OUR CROSS-SECTORAL PRIORITIES

As outlined in its Strategic Update 2021, the Authority has set its strategic priorities under three main, non-competing and mutually enabling key areas that are considered to be conducive to sustainability and long-term value creation. These are:

- Supervisory Transformation;
- Fostering a Stronger Compliance Culture; and
- Innovation and Growth.

This section is intended to deliver an overview of the progress registered for each of the above-mentioned strategic priorities during 2021.

1.1 SUPERVISORY TRANSFORMATION

Three years ago, the MFSA embarked on a transformation process to fundamentally change the way it operates and become a more efficient and effective supervisor in the longer term. This means that one of the Authority's priorities is to achieve a high level of quality and effective supervision as a means to ensure the stability and sustainability of the financial services sector in Malta. In 2021, significant progress was achieved in this regard.

1.1.1 Enhanced Financial Stability Monitoring

As outlined in the MFSA Strategic Plan 2019-2021, the safeguarding of the domestic financial system continues to be a key objective for the MFSA, which it carries out in collaboration with the CBM, as mandated by Article 4(b) of the Malta Financial Services Authority Act.

The MFSA ensures that systemic risk oversight is carried out on an ongoing basis, identifying vulnerabilities and possible risk build up that may give rise to system-wide consequences. In-depth assessments are conducted on banks, insurance undertakings and investment funds licensed by the MFSA, delving into financial stability implications that may arise at both sectoral and entity levels. Various tools are used when carrying out risk oversight, with risk dashboards being central when it comes to flagging vulnerabilities which might necessitate further analysis and investigation. The main risks characterising the financial services sector during 2021, as expected, were driven by COVID-19 related factors. This led to additional monitoring in relation to the emerging pandemic-related vulnerabilities, complemented by assessments on the adequacy of policy support measures that were put into place to mitigate risks that could spread across the financial sector and real economy.

This risk oversight mechanism forms part of the risk assessment process and is supported by the use of stand-alone models. Of particular importance is the in-house network model, which facilitates the monitoring of contagion risk within the Maltese financial sector through the equity, credit and funding channels. The MFSA continues to improve on the model by extending coverage of licensed entities. Moreover, a stand-alone, multi-level network mode – "A multi-level network approach to spillovers analysis: An application to the Maltese domestic investment funds sector" – was set up to gauge the assessment of spillovers between the domestic fund industry, the local bond and equity markets, and the global financial markets. During the year, improvements were also carried out on Liquidity stress testing for Maltese retail investment funds, specifically on the framework developed in 2020, further strengthening its robustness. Work was also carried out on Non-Bank Financial Intermediation in Malta, by setting up a composite indicator that enables identification of bank-like risks by entities other than banks.

FINANCIAL STABILITY INITIATIVES – SECURITIES AND MARKETS

The Authority also evaluated systemic implications potentially arising from initial public offerings following applications for admissibility to listing on the MSE. In addition, the Authority undertook assessments of a macroprudential nature to keep improving its supervisory effectiveness.

In 2021, the Authority analysed and took on board recommendations issued by the ESRB, aimed at addressing the emergence of systemic risks, to factor them into its compliance action plans. The most relevant recommendations are related to risks emerging during the pandemic, such as dividend distribution restrictions [ESRB/2020/07] and the monitoring of support measures, including credit moratoria and public guarantee schemes [ESRB/2020/08]. Other recommendations include: liquidity risks arising from margin calls [ESRB/2020/6]; the introduction of a unique legal entity identifier [ESRB/2020/12]; and a pan-European systemic cyber incident coordination framework for relevant authorities [ESRB/2021/17].

Furthermore, the Authority was involved in other macroprudential-related tasks such as the European Commission's review on the macroprudential framework of EU banking regulations and the EU directive on credit servicers and credit purchasers. The Authority continued to address areas of deficiency found in liquidity risk management practices adopted by fund managers. The MFSA issued a document outlining the main findings made concerning the Common Supervisory Action on Liquidity Risk Management completed during 2020.

In 2021, the Authority continued with the work started in 2020 to ensure that investment firms of systemic importance adhered to the restriction on dividend distributions imposed by the ESRB. The purpose of this restriction stemmed from the economic crisis that developed following COVID-19, given its potential to evolve into a systemic financial crisis. The ultimate aim of this imposition was to ensure sufficient levels of capital and loss-absorbing capacity in the financial institutions to mitigate the impact of the ongoing crisis and thereby contribute to a smoother recovery for the pan-European economy as a whole. The restriction was lifted in September 2021.

> THE AUTHORITY CONTINUED TO ADDRESS AREAS OF DEFICIENCY FOUND IN LIQUIDITY RISK MANAGEMENT PRACTICES ADOPTED BY FUND MANAGERS.

FINANCIAL STABILITY INITIATIVES: BANKING

In the light of COVID-19 developments, a sensitivity analysis was carried out on banks' balance sheets, particularly those which hold the strongest ties with the Maltese economy. The exercise incorporated a scenario analysis for hypothetical levels of asset quality deterioration, assessing the adequacy of capital and the robustness of banks to withstand adverse shocks.

The Authority's supervisory reviews of banks were focused on an analysis of the sustainability and viability of their business model. This included an assessment of the capital and liquidity levels, and of the quality of IT systems, internal controls and overall governance.

In 2021, the MFSA organised a webinar for the banking sector to provide information on how to develop a stress test to be included in the Individual Capital Adequacy Assessments together with a review of credit quality and controls during the same year. Through this webinar, the Authority provided insights as to what an appropriate stress framework should look like and how stress test outputs should interact with the risk management framework and recovery plan. In particular, it was emphasised that credit institutions should have an appropriate stress testing framework in place, which should be in line with their business model, size and complexity, supported by good governance arrangements and data infrastructure, and should form part of a bank's risk management framework and strategic planning.

An exercise was also undertaken in order to evaluate the customer onboarding controls associated with online deposit platforms on which some banks rely for their funding franchise. The Authority also examined the outflow assumptions used in Individual Liquidity Adequacy Assessments to ensure that the pricing of these liabilities was reflected in bank structures.

Finally, in view of the various shocks in 2021, the Authority also monitored the development of business models of payments and e-money providers, particularly in terms of their financial resilience.

> IN THE LIGHT OF COVID-19 DEVELOPMENTS, A SENSITIVITY ANALYSIS WAS CARRIED OUT ON BANKS' BALANCE SHEETS, PARTICULARLY THOSE WHICH HOLD THE STRONGEST TIES WITH THE MALTESE ECONOMY.

FINANCIAL STABILITY INITIATIVES: INSURANCE

The Authority continued with its ongoing monitoring of prudential requirements related to capital adequacy, business model profitability, liquidity and general financial soundness of insurance and pensions licensed entities, in line with the MFSA supervisory priorities.

During the year, the MFSA developed a Domestic Insurance Stress Test framework, which assesses the resilience of the insurance sector to theoretical, significant interest rate shocks, notably in relation to those insurance undertakings that hold the strongest ties with the Maltese economy. The stress test tool adopts a top-down approach, providing a stand-alone assessment of insurance undertakings under an adverse scenario, assuming that financial support within the group structure or from the parent company is not available. The tool complements the other risk metrics in place to assess vulnerabilities at both sectoral and institutional levels.

The MFSA also continued to assess the impact of the low level of interest rates and COVID-19 on the sustainability of life and non-life insurance licensed entities.

EFFECTIVE RESOLUTION

During 2021, the Authority actively contributed to resolution-planning activities for SIs, in collaboration with the SRB as the Resolution Authority responsible for this category of banks. The Authority also monitored compliance with the Minimum Requirement of Own Funds and Eligible Liabilities (MREL), coordinated verification exercises and analysis of resolution reporting data collection, and also effectively implemented SRB decisions for this category of banks. Moreover, bilateral meetings were held with the majority of Less Significant Institutions (LSIs) during the year under review.

A new reporting framework came into force in September 2021 for resolution entities and those with a contingent resolution for the reporting of MREL and Total Loss Absorbing Capacity data. As in previous years, the MFSA successfully concluded the annual process of collecting ex-ante contributions from all local banks towards the Single Resolution Fund.

The Authority was directly involved in discussions with the IMF as a follow up to the Financial Sector Assessment Programme on the Crisis Management and Safety Net regime with regards to the potential development of an administrative framework for bank insolvency. An analysis of a number of foreign insolvency frameworks was conducted, also within the context of ongoing discussions at European Commission level on the potential harmonisation of bank insolvency across the EU. The Authority has been an active participant in such discussions by providing advice to the Ministry for Finance and Employment and when representing Malta during meetings between EU Member States.

The Authority also participated in a number of discussions with the SRB and the European Banking Authority (EBA) with regards to the continuous development of guidelines, Regulatory Technical Standards (RTSs) and Implementing Technical Standards (ITSs), providing its feedback.

Together with the Ministry for Finance and Employment, the MFSA also participated in working groups organised by the European Commission, with regards its proposal to establish a framework for the recovery and resolution of insurance and reinsurance undertakings.

1.1.2 *Organisational and Operational Capacity*

The Authority believes that its performance and the achievement of all its strategic priorities heavily rely on its organisational and operational capacity. Since the launch of the Authority's Strategic Plan 2019-2021, the following initiatives have taken place:

- Various improvements were made to the performance management scheme, while an annual employee engagement survey was undertaken from 2019 onwards to identify the Authority's strong points and areas requiring improvement.
- The self-development policy was revised in 2019 to include financial support for Ph.D level programmes and additional study leave entitlements.
- The FSA was set up in 2020 to provide continuous professional development.
- Remote working arrangements were introduced in 2020.
- Students were given the opportunity for job exposure through an internship programme, with 20 of these being enrolled in 2021.
- The Authority continued to encourage and support secondments with international institutions such as the ECB and National Competent Authorities (NCAs).
- The HR Business Partnering was launched in 2021 to provide further support to employees and management.

Fostering a culture of diversity and inclusivity is imperative for the MFSA. In 2021, 50% of the headcount was female and the Authority employed 59 non-Maltese nationals from 22 different countries.

> THE AUTHORITY CONTINUED TO ENCOURAGE AND SUPPORT SECONDMENTS WITH INTERNATIONAL INSTITUTIONS SUCH AS THE ECB AND NATIONAL COMPETENT AUTHORITIES.

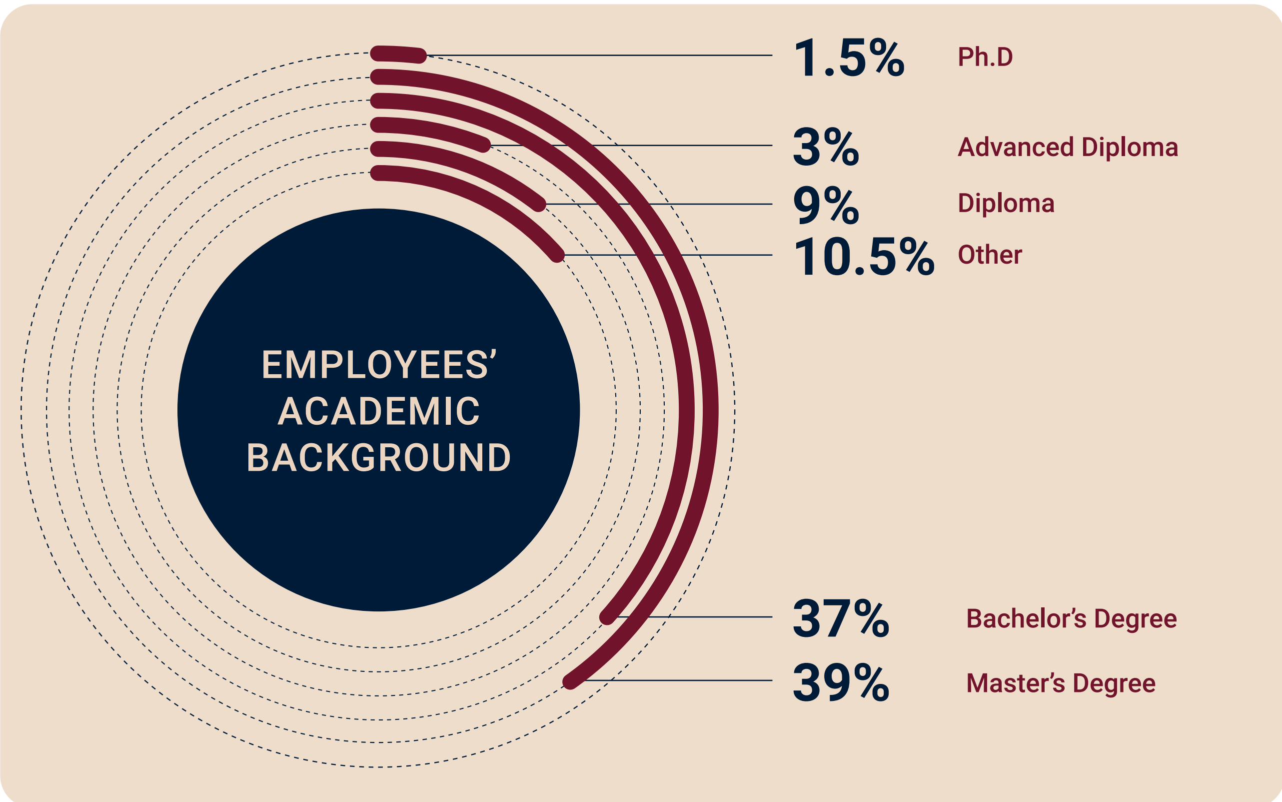
A QUALITY WORKFORCE

In 2021, the Authority continued to bolster the quality and overall competencies of the workforce in various areas of specialisations through an ongoing recruitment process with the engagement of suitably experienced and qualified individuals.

As at end 2021, the Authority employed 401 full-time-equivalent employees. Of these, 74.7% work in compliance functions, while the rest work in support and operational functions. In 2021, 66 vacancies were filled from external sources and another 87 vacancies through internal appointments.

The Authority provided internal and external training to members of staff to further enhance their competencies in different key areas. In fact, during 2021, the Authority provided a total of 18,324 training hours which were subdivided as follows:

By the end of 2021, the Authority's employees' academic background consisted of the following levels:



Going forward, the Authority's People & Culture strategy for 2022-2024 focuses on four key strategic pillars. The Authority is committed to creating value through targeted organisational effectiveness initiatives in employee wellbeing, talent development, work design and organisational culture.

1.1.3 MFSA's Digital Transformation

The Authority is continuously evolving and is on a transformative journey that will ultimately enable it to increase operational efficiency and effectiveness through digitisation and digitalisation. The digital transformation has already delivered on its promise to bring improved efficiency and will continue to do so in the future.

The Authority leverages cutting-edge technology, industry standards and methodologies to provide reliable services to the rest of the organisation and to licence-holders. Increased adoption of technology continued to improve the accuracy and compliance of the regulatory data. In 2021, further investment was made in new Business Support Systems, and for further modernisation of current IT infrastructure and information security. In 2021, the Authority was able to continue supporting the use of remote working, due to the continuous investment in technology modernisation and virtual work environment alignments made in recent years. The strong infrastructure backbone, coupled with web-enabled information systems, made all this possible without compromising security.

The specific challenges brought about by remote working also led to a rehaul of the Authority's intranet portal. The new intranet promotes further employee engagement and fosters a greater sense of belonging. It also improved internal communication and information sharing, ultimately increasing productivity.

> THE AUTHORITY LEVERAGES CUTTING-EDGE TECHNOLOGY, INDUSTRY STANDARDS AND METHODOLOGIES TO PROVIDE RELIABLE SERVICES TO THE REST OF THE ORGANISATION AND TO LICENCE-HOLDERS.

INVESTMENT IN INFORMATION SYSTEMS

In 2021, the Authority continued with its planned investment in information systems by extending functionality to cater for new submissions through the Licence-Holder Portal with the aim of increasing efficiency in its supervisory processes and at the same time creating a centralised database. The LH Portal tool assisted the Authority's supervision and surveillance by requiring licence-holders to review and update their corporate profile and list of Involvements while also improving reporting and compliance. Real-time monitoring, and proactive and judgment-based supervision became more effective with more efficient and value-added regulatory data.

Corporate service provider applications were also added to the LH Portal, offering the possibility for CSPs to submit an online application for authorisation.

Important projects, such as the European Single Electronic Format (ESEF) and Investment Firms Directive and Regulation (IFD/IFR) were implemented, facilitating and harmonising reporting to the MFSA's European counterparts.

Improvements were made to document archiving for better analysis and document accessibility.

Through continuous investments in Voice-over-Internet services, the Authority has made use of an all-in-one application integrating both traditional voice services and modern solutions such as video conferencing, instant messaging and collaborative tools. This meant that the Authority could easily handle over 3,000 attendees at once at the various online events it organised.

Several enhancements were introduced to the online Trusts Ultimate Beneficial Ownership Register (TUBOR) platform to continue improving accessibility. This was also crucial to obtain Malta's compliance with the requirement under the Fifth AML Directive relating to the interconnection of beneficial ownership registers between EU Member States.

REAL-TIME MONITORING, AND PROACTIVE AND JUDGMENT-BASED SUPERVISION BECAME MORE EFFECTIVE WITH MORE EFFICIENT AND VALUE-ADDED REGULATORY DATA.

DATA-DRIVEN SUPERVISION – DATA DIGITISATION AND RECORDS CENTRALISATION

The journey towards data digitisation and records centralisation is well underway. In 2021, the data governance programme delivered against a number of objectives through significant investment. This led to the implementation of a new data warehouse and a new BI layer. Initiatives completed include:

- maintaining the momentum on technology strategy programmes and data strategy position papers;
- implementation of records management policies and procedures;
- centralisation of physical records held by the MFSA;
- improvement of the corporate profile data quality through centralisation and standardisation;
- automation of supervisory and operations management information statistics.

SUPERVISORY CYCLE MANAGEMENT SYSTEM

The Supervisory Cycle Management System is meant to eventually replace a suite of internal systems currently in use by the MFSA, thereby consolidating all supervisory data while enabling the digital orchestration of all authorisation and supervisory workflows. In turn, this will contribute even further towards enhanced operational efficiency and effectiveness in the Authority's day-to-day work. MFSA has been working on improving internal processes and underlying data architecture as a prerequisite to system implementation in due course.

Certain changes necessitated projects to improve supervisory data quality. As a result of such work in 2021, the Authority was able to launch its Authorisation Process Service Charter, which aims to provide a clear outline of the MFSA's authorisation process, communicate to prospective applicants seeking authorisation what is expected of them, and to clearly set out the Authority's time commitment within the authorisation process. This Charter was issued to supplement the Authority's Rule 4 on Authorisations under the MFSA Act (Chapter 330 of the Laws of Malta), which was also issued in the same year.

The Authorisation Process Service Charter, together with all the other mentioned initiatives, provide a revised and improved process flow and hence serve as strong foundations for the MFSA's efforts in the re-engineering of processes as part of the ongoing digital transformation.

THE AUTHORISATION PROCESS SERVICE CHARTER, TOGETHER WITH ALL THE OTHER MENTIONED INITIATIVES ... SERVE AS STRONG FOUNDATIONS FOR THE MFSA'S EFFORTS IN THE RE-ENGINEERING OF PROCESSES AS PART OF THE ONGOING DIGITAL TRANSFORMATION.

IMPROVED USER EXPERIENCE ON MFSA'S WEBSITE

During 2021, various improvements to the Authority's website were implemented, particularly the overhaul of the home page, as well as the consumer and 'Our Work' sections. The objectives of website enhancements remain easier navigation, improved information discoverability, and a better overall user experience.

1.1.4 Enhancing Communication and Outreach

The Authority further enhanced its communication and outreach efforts in 2021. The Authority issued various Public Warnings and Notices to alert the public to unauthorised activities, scams and fraudulent schemes carried out in or from Malta. During the year the Authority issued:

NOTICES	CIRCULARS	MEDIA RELEASES	WARNINGS	CONSULTATION PAPERS	FEEDBACK STATEMENTS
215	182	42	38	8	3

Additionally, when during its investigative function the Authority identifies suspicious activity relating to money-laundering concerns, it submits an internal suspicious transaction report to the Authority's Money Laundering Reporting Officer (MLRO) and undertakes all the required reporting and collaboration with the FIAU and other law enforcement agencies such as the Malta Police Force, the Commissioner for Revenue, the Malta Gaming Authority and the MBR.

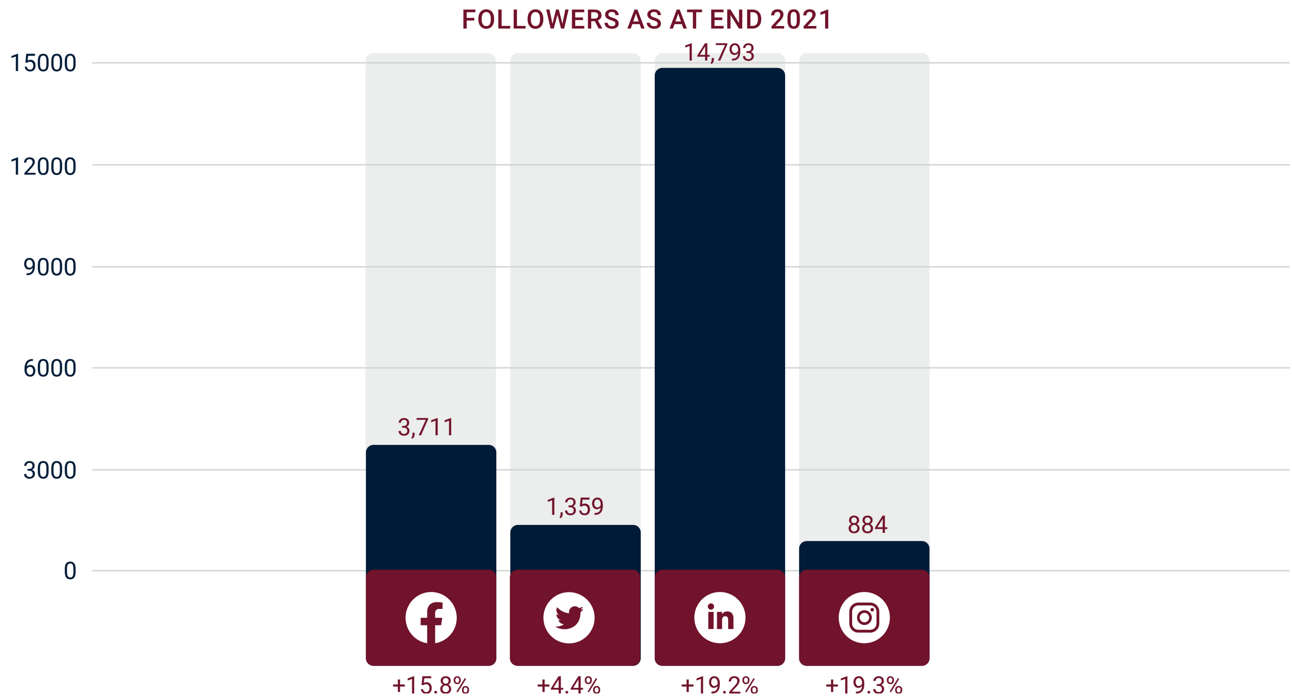
The Authority also organised 18 events which saw the participation of 117 speakers, over 3,000 attendees and an additional 500 views of post-event online recordings. The Authority also promoted financial services careers through participation in various fairs: Freshers Week at the University of Malta, St Martin's Career Fair and the KSU Career Fair.

18 EVENTS

- **117** SPEAKERS
- OVER **3,000** ATTENDEES
- ADDITIONAL **500** VIEWS POST EVENT

The Authority also had a specific outreach effort with regards to the new CSP regime, which included several newspaper articles, as well as the organisation of webinars.

In 2021, the Authority increased its following on various social media platforms.



EDUCATIONAL CAMPAIGNS

Educating consumers about their rights and duties is at the heart of the MFSA's conduct supervision remit.

In July 2021, a campaign on digital banking was launched, aimed at increasing awareness of the benefits of using digital banking as well as giving tips on how to have a safer online experience.

In October 2021, the Authority also participated in the IOSCO World Investor Week to raise awareness among consumers on financial literacy and highlighting the importance of making informed investment decisions. The campaign also touched upon the concept of sustainable finance to promote the possibility of making investments that take into consideration the impact of ESG factors.

1.1.5 Enforcement

The Authority seeks to foster a more positive compliance culture in the industry and will continue to facilitate the shift to higher levels of governance and compliance. Individuals behind regulated entities are subject to a risk rating and are subjected to ongoing due diligence on a regular basis, and when entities breach regulatory requirements, the Authority takes the necessary enforcement action.

To this effect, the Authority is publishing a monthly supervisory and enforcement effectiveness dashboard. In 2021, 76 enforcement actions were taken, resulting in an increase of 46% over 2020, with administrative penalties amounting to €907,518.

ADMINISTRATIVE PENALTIES AMOUNTED TO

€907,518

IN **2021**

46%

INCREASE IN ENFORCEMENT ACTIONS **OVER 2020**

A TOTAL OF

184

ENFORCEMENT ACTIONS OVER **5 YEARS** (2017-2021)

70%

OF THE 184 ACTIONS WERE TAKEN OVER THE **PAST 2 YEARS**

1.1.6 Operational Risk Management

Operational risk management is an integral part of the MFSA's governance and management processes and contributes to overall risk management within the Authority. In 2021, the Authority continued embedding operational risk management practices within its activities, with the aim of establishing a structured risk management process across the various directorates and functions.

A number of actions have been undertaken, as part of the Authority's constant evolution of the risk management processes, as outlined below:

Risk Governance and Culture
- The Board of Governors' oversight has been strengthened, with risks being mapped to the Board of Governors or relevant directorates as appropriate.
- The new Board resolved to re-establish the Risk Committee as part of its effort to contribute to better governance at the MFSA.

Risk Management Architecture
- Common risk language across MFSA directorates and/or functions has been adopted.
- A common risk assessment framework has been launched across the Authority.
- A dynamic internal audit plan has been laid out and aligned with risk management.

Alignment of Strategy and Risk Appetite Management
- Risk management has been embedded into strategic and operational planning processes.
- Risk appetite has been embedded in decision-making processes through the Risk Appetite Statement.
- Specific risk assessments were performed on significant operational processes.

1.2 FOSTERING A STRONGER COMPLIANCE CULTURE

While the Authority firmly believes that the long-term sustainability and growth of the financial services sector in Malta very much depends on compliance, it is also aware that this is becoming an increasingly complex domain and that some entities often lack the right know-how, structures and frameworks. However, compliance is an important pillar of sustainability focus and the Authority is nurturing a culture of compliance, through the development of holistic mechanisms within regulated entities.

> THE AUTHORITY IS NURTURING A CULTURE OF COMPLIANCE THROUGH THE DEVELOPMENT OF HOLISTIC MECHANISMS WITHIN REGULATED ENTITIES.

1.2.1 Conduct of Business

As part of its mission, the MFSA has a continued focus on retail investor protection to ensure that the interests of consumers of financial services are safeguarded and are placed at the centre of supervised firms' operations.

Addressing the importance of proper design and distribution of financial products, the Authority issued the fifth volume of "The Nature and Art of Financial Supervision" series in July 2021. Focusing on Product Oversight Governance requirements, this publication highlighted findings from the cross-sectoral thematic exercise carried out by the Authority.

CONSUMER PROTECTION – INSURANCE

In 2021, the Authority took a number of measures to ensure that insurance products meet policyholders' expectations of risk cover for the premium paid. The main focus was put on issues relating to sales processes, and the manufacturing and distribution of insurance products, particularly insurance-based investment products.

Several onsite inspections were conducted with the ultimate aim of assessing the sales processes of undertakings, especially when they offered insurance-based investment products to their clients. These inspections covered several insurance undertakings, insurance intermediaries and insurance brokers intending to assess whether their respective sales processes were in line with the applicable regulatory requirements. The Authority also carried out inspections at banks that act as tied insurance intermediaries for insurance companies which sell insurance products to clients from their branches.

Inspections were also carried out at insurance companies which manufacture insurance-based investment products, to assess their product oversight and governance arrangements, in particular when it comes to the establishment of their target market and the monitoring of such products.

In early 2021, the Authority organised a webinar on the regulatory requirements for tied insurance intermediaries and also published the results of a research study on consumer behaviour relating to home insurance.

Moreover, the Authority focused on ensuring that products continue to meet customer expectations in the context of COVID-19, particularly in the light of changes that insurers may have made to their products concerning the coverage of certain risks emanating from the pandemic, sometimes retrospectively.

CONSUMER PROTECTION – BANKING

Following the outbreak of COVID-19, segments of the population were particularly impacted with respect to their employment and were consequently finding it difficult to meet their financial commitments. As part of the strategic objective of monitoring the impact of COVID-19 on the sector, the MFSA assessed a sample of licence-holders to obtain an understanding of the procedure being followed to process applications for moratoria on loans.

In addition, the Authority also delved into the type of ongoing monitoring which was being done by licence-holders to ensure that the consumer was not negatively impacted following the expiry of the moratoria.

During 2021, an exercise was conducted to ensure that banks comply with the Banking Rule 22 – Complaints Handling Procedure. Supervisory work was also conducted on the process adopted when handling a home loan application. The Authority reviewed the full process from the application to the approval stage. The Authority also launched the Payment Accounts Fees Comparison Tool, which allows consumers to compare the fees being charged by credit and financial institutions in respect of payment accounts held in Malta.

The Authority also contributed to the joint initiative chaired by the European Commission and the OECD to build a financial competencies framework for the EU.

CONSUMER PROTECTION – INVESTMENTS

In 2021, the Authority focused on assessing a number of strategic areas related to the provision of investment products. These areas included the corporate governance framework of regulated firms, adherence to the Markets in Financial Instruments Directive (MiFID) II Product Governance requirements and the selling processes for locally issued financial instruments to retail clients.

The Authority also followed up on supervisory work undertaken vis-à-vis the MiFID suitability assessments and examined the selling processes of a sample number of investment firms with respect to the distribution aspect of locally issued financial instruments, focusing particularly on high-risk customer groups. The Authority also continued working on the application of MiFID II Product Governance requirements. Furthermore, building on the cross-sectoral priority for 2020, further supervisory work on cross-border investment services was also conducted by integrating it as part of the Authority's supervisory inspections.

1.2.2 Combating financial crime, money laundering and terrorism financing

In 2021, the Authority published an update on its AML/CFT strategy to provide information to practitioners in compliance, AML/CFT and financial services on the changes which the Authority carried out in order to strengthen its AML/CFT compliance framework.

The Authority conducted various supervisory inspections on behalf of the FIAU and the SMB. These inspections were both full-scope (comprehensive) and focused (targeted) inspections. In 2021, the Authority undertook a total of 80 supervisory inspections with a focus on AML/CFT, across the various sectors that are supervised. Moreover, the AML/CFT element has been embedded into all applicable conduct and prudential-related inspections.

Specific focus is given to AML governance, the effectiveness of the MLRO function – including fitness and properness of the MLRO – and any systemic risks arising from flawed policies and procedures. Additionally, a total of 195 conduct and prudential supervisory interactions that included an AML/CFT element were carried out.

At a national level, the Authority also contributed extensively to the work of the National Risk Assessment programme, working closely with the FIAU and the SMB on the assessment of threats and vulnerabilities with regards to the financial sector for AML and proliferation financing.

> IN 2021, THE AUTHORITY UNDERTOOK A TOTAL OF 80 SUPERVISORY INSPECTIONS WITH A FOCUS ON AML/CFT, ACROSS THE VARIOUS SECTORS THAT ARE SUPERVISED.

AML-FOCUSED TRAINING

The Authority's employees attended 22 training events related to AML/CFT during 2021. The Authority's FSA organised a hybrid conference entitled "Financial Crime Compliance in the EU, Risk-Based Approach, AMLA and Beyond". The event, which was partly funded by the Hercules III Programme of the European Commission, was attended by over 350 stakeholders both from Malta and abroad.

A workshop was also held for the pensions industry where the Authority set out its expectations relating to the role of the MLRO, and other AML/CFT related matters within this sector including financial crime governance, risk assessment and customer screening.

GATEKEEPING

The Authority has a very significant role as a gatekeeper for bad actors, through both its authorisation process and compliance requirements.

The processes of the Authority, with respect to the review of proposed new licences and proposed amendments to existing licences, are aligned to the MFSA's Risk Appetite Statement issued in January 2020. The focus was directed towards the analysis of the business and operational models, shareholding structures, and interaction concerning proposed MLROs – with regards to their fitness and propriety, experience, and suitable qualifications – to effectively perform the role. As part of its assessment, the Authority conducted 69 interviews with prospective MLROs before deciding on suitability for authorisation.

On the other hand, the Due Diligence Function continued to upscale its infrastructure by improving its ongoing monitoring and analysing trends, also through the use of more screening tools. These efforts, coupled with the agreements which are being entered into with other regulatory authorities and law-enforcing bodies, helped the Authority to ensure that key players within the financial market remain fit and proper and effectively handle AML/CFT risks and procedures.

DATA-DRIVEN DASHBOARDS

The MiFID Transaction Reporting code has been amended to allow for better data modelling. Data-driven dashboards have also been created to help the Authority monitor local transactions, improve the quality of data being reported and flag suspicious activities to combat financial crime. These dashboards also monitor the exposure to foreign high-risk jurisdictions and currencies, as well as categorising investors in accordance with their relevant risks.

1.2.3 Supervisory Engagement

The supervisory cross-sectoral and sector specific objectives are achieved through MFSA's yearly engagement programme. The MFSA adopts a risk-based approach to supervision and uses different supervisory tools to specifically address identified risks. The regulatory and supervisory toolkit available to the MFSA includes different forms of engagement such as supervisory interactions (inspections and meetings), supervisory reviews, thematic reviews, Supervisory Review and Evaluation Process (SREP) and mystery shopping.

In terms of supervisory interactions, during 2021,the MFSA focused on maintaining supervisory engagement coverage at the levels of the previous year. By the end of December 2021, the MFSA had conducted 416 supervisory inspections and 208 supervisory meetings across all sub sectors.

	2017	2018	2019	2020	2021
Supervisory Inspections	117	168	202	154	173
Supervisory Inspections AML/CFT Focus	-	-	25	81	80
Supervisory Inspections inc. AML/CFT	-	-	-	184	163
Supervisory Meetings	-	-	-	-	176
Supervisory Meetings inc. AML/CFT	-	-	-	-	32

416
SUPERVISORY INSPECTIONS

+

208
SUPERVISORY MEETINGS

1.2.4 Corporate Governance

As part of the Authority's commitment to ensure that the highest standards of governance, risk management, culture and conduct are applied by authorised entities, the MFSA embarked on a review of the corporate governance framework for entities falling within its remit. In 2020, the MFSA issued a Discussion Paper proposing a comprehensive and enforceable cross-sectoral Corporate Governance Code. Following careful consideration of the responses received in the first half of 2021, the Authority released a Feedback Statement summarising the contributions received and the MFSA's position for the way forward. The MFSA focused on raising corporate governance standards for authorised Persons, stressing that governance is considered a top priority and should be embedded in firms' culture by the governing body and senior management.

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 and move towards more intelligent and proactive governance models, even through the engagement of external expertise, where necessary.

Intending to raise awareness on matters relating to corporate governance, the MFSA – in liaison with the Institute of Directors – also organised a webinar entitled "Raising Corporate Governance standards in the financial services sector".

The MFSA's work relating to the corporate governance and compliance culture will continue during 2022, as the Authority intends to continue engaging with stakeholders to drive a culture change, thereby ensuring that the industry is fully committed to implementing the highest standards of corporate governance. Furthermore, the Authority also intends to carry out reviews of the existing corporate governance codes and the sector-specific rules and guidance.

> GOVERNANCE IS CONSIDERED A TOP PRIORITY AND SHOULD BE EMBEDDED IN FIRMS' CULTURE BY THE GOVERNING BODY AND SENIOR MANAGEMENT.

CORPORATE GOVERNANCE – BANKING

The Authority developed a minimum engagement level of contact with banks to ensure there is an ongoing assessment of governance standards in banks. This involved interviews with Boards and executive management throughout the year. A conference for non-executive directors of banks was organised to support further engagement with the Authority and promote a common understanding of regulatory expectations at Board level. The conference also featured speakers from the ECB and the UK's Prudential Regulation Authority.

A thematic review of banks' compliance functions using the ECB's assessment framework was held to assess the quality of second-line controls. Moreover, a more in-depth focus was kept on the governance processes used in banks to set fee structures to ensure the levels are reasonable in the context of the service provided.

CORPORATE GOVERNANCE – INSURANCE AND PENSIONS

In 2021, the Authority proposed the introduction of the concept of credit risk transfer, where an insurance undertaking may enter into an agreement with an insurance intermediary, and the said undertaking assumes all the credit risk emanating from premia payment, in line with Article 10(6)(a) of Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution. In this respect, the Authority issued a Consultation Document on the amendments to Chapter 4 of Part A of the Insurance Distribution Rules on own funds of Persons enrolled in the Agents List, Managers List or Brokers List carrying out insurance and re-insurance distribution activities. The Authority also proposed new amendments to Chapter 4 on the own fund requirements of a cell company that is enrolled in the Managers List or Brokers List. Following this process, the Authority issued another circular on the amendments to Chapter 4 and Chapter 10 of the Insurance Distribution Rules and the Conduct of Business Rulebook, highlighting the main amendments proposed by the Authority.

In December 2021, the Authority issued a Consultation Document to address issues observed during regulatory work while also highlighting other findings related to the pensions market and proposing to amend a number of Rules for this specific sector.

CORPORATE GOVERNANCE – SECURITIES AND MARKETS

Through its onsite and offsite visits, the MFSA continued to instil a compliance culture across all entities falling within its remit. A number of Circulars were issued to the industry to lay down the Authority's expectations in different areas such as market abuse and the European Market Infrastructure Regulation (EMIR).

Moreover, as part of the review of applications for admissibility to listing, applicants' corporate governance structures were assessed in terms of rules and good market practices. During 2021, the MFSA carried out a number of inspections covering the adequacy of governance and compliance, the risk set up and other control functions of licence-holders. The composition and proper functioning of the Board, including the involvement of the non-executive director, record keeping and Board proceedings, were of particular focus. Moreover, the Authority also reviewed the compliance officer's monitoring activities. Governance culture has continued to be a critical element of the risk monitoring system exercise for fund management companies, collective investment schemes and investment firms.

1.3 INNOVATION AND GROWTH

The Authority recognises that in order for the industry to remain economically sustainable in the long term, and relevant and well-positioned within the environment in which it operates, it must be proactive and not lag behind in harnessing the benefits of innovation, while acting with a renewed focus to contribute toward the long-term sustainability of the sector and wider economy.

1.3.1 Digital Finance: FinTech and Innovation

The MFSA's FinTech Strategy released in May 2019 positioned technology and innovation at the forefront of the Authority's agenda, followed by the launch of the FinTech Regulatory Sandbox in 2020, when it also became a member of the Global Financial Innovation Network and the European Forum for Innovation Facilitators.

During 2021, the Authority de-prioritised certain elements of its strategy to focus on its commitment to adopt regulatory and supervisory initiatives which support innovation and improve regulatory efficiency (Pillar 1). In this regard, the Authority revised its application forms and authorisation process, leading to the launch of the Authorisation Process Service Charter.

Digital finance is high on Europe's agenda with the European Commission publishing its Digital Finance Package in September 2020. Establishing digital finance as a key focus area cutting across sectors, the MFSA set up an internal working group to holistically address the policy developments arising from the Package, with attention being given to the needs and specificities of the Maltese financial services industry. This is complemented by active participation in discussions at EU level on the Distributed Ledger Technology Multilateral Trading Facility pilot regime.

> ESTABLISHING DIGITAL FINANCE AS A KEY FOCUS AREA CUTTING ACROSS SECTORS, THE MFSA SET UP AN INTERNAL WORKING GROUP TO HOLISTICALLY ADDRESS THE POLICY DEVELOPMENTS ARISING FROM THE PACKAGE.

FIRST VFASP LICENCES GRANTED

With respect to the VFA sector, in the first half of 2021, the Authority granted the first VFA service providers licences (VFASP) under the VFA Act. In parallel with the granting of authorisations, the Authority focused on ramping up its supervisory practices with the formalisation of a VFA service providers risk model, the creation of supervisory processes and procedures, as well as the planning of supervisory interactions. To mitigate the inherent risks of the sector and communicate the Authority's expectations, the MFSA carried out supervisory inspections on all locally licensed and active VFA service providers. The supervisory interactions assessed the VFASPs' general compliance with their obligations emanating from the provisions of the VFA Act (Cap. 590 of the Laws of Malta), the rules and regulations emanating thereunder as well as their AML/CFT requirements under the PMLFTR.

1.3.2 Digital Finance: Operational Resilience

The Supervisory ICT Risk and Cybersecurity Function (the SIRC function), which was established as a new function within the MFSA in 2020, works closely with the other supervisory teams and is responsible for the supervision of licence-holders in the areas of ICT risk and cybersecurity and the management of risks associated with ICT outsourcing, collectively the area of digital operational resilience. In 2020, the SIRC function conducted a number of supervisory interactions with licence-holders and in 2021 published its general feedback to the industry on its findings and put forward its recommendations. This document also described the MFSA's supervisory focus for 2021 in the areas of ICT risk and cybersecurity, as well as ICT outsourcing and the expectations of the Authority with regards to cybersecurity from licensed entities. This document also provided information about how the Authority carries out ICT risk and cybersecurity supervision, future significant developments within the regulatory framework, and observations from the various supervisory interactions. However, ICT risk and cybersecurity go beyond supervision and regulatory compliance and hence this document lists a number of actions, cultural approaches, knowledge and policies that need to be present to achieve a heightened level of cybersecurity.

CYBERSECURITY TRAINING

Through participation in various internal and external training programmes, the Authority continued to equip its employees with the latest technical know-how on cybersecurity. This enabled the Authority to monitor cyber threats in the market and assess the ability of market participants to deal with them. The FSA also hosted a webinar on "Cybersecurity in Supervision" targeted at regulatory authorities, central banks, EU institutions, academics and students. Between webinars and other training opportunities on this subject, 71 staff members received 502 hours of training on cybersecurity.

71
STAFF MEMBERS RECEIVED

502
HOURS OF TRAINING ON **CYBERSECURITY**

COMMUNICATION WITH INDUSTRY

In 2021, the Authority issued various circulars on specific emerging cybersecurity threats, and as outlined by the EU Agency for Cybersecurity.

Following the release of the Guidance on Technology Arrangements, ICT and Security Risk Management, and Outsourcing Arrangements, the Authority carried out several thematic desk-based reviews on ICT and cybersecurity risk management. Self-assessment questionnaires were sent out to VFASPs, CSPs, trustees and other fiduciaries, securities and markets, insurance and pension firms, and banking and financial institutions.

A circular was also issued to provide practical guidelines concerning the Software-as-a-Service cloud model within the context of outsourcing.

1.3.3 Sustainability

The unforeseen economic shocks and the evolving economic and social realities brought about by COVID-19 containment measures on both national, European and global economies only reinforced the Authority's determination to continue to steer the sector to a higher threshold of long-term sustainability.

Economic sustainability refers to sustainable growth in a manner, at rates, and in areas that are relevant in scope to the evolving market environment and the Authority's capabilities. The Authority is aware that a stable and resilient financial services sector is an essential economic infrastructure not only for this industry's sustainability but also for the recovery of the rest of the economy.

> THE AUTHORITY IS AWARE THAT A STABLE AND RESILIENT FINANCIAL SERVICES SECTOR IS AN ESSENTIAL ECONOMIC INFRASTRUCTURE NOT ONLY FOR THIS INDUSTRY'S SUSTAINABILITY BUT ALSO FOR THE RECOVERY OF THE REST OF THE ECONOMY.

1.3.3.1 Sustainable Finance and Climate Change

The European Commission aims to make Europe the world's first climate-neutral continent by 2050. Listed as one of the MFSA's key initiatives in 2021, sustainable finance emerged as a supervisory priority focus area for 2022, also in the light of developments as part of the European Green Deal and its underlying initiatives, including the European Commission's Sustainable Finance Package. Sustainable finance seeks to orient the financial services industry towards economic growth which takes ESG into account and is steadily gaining more traction and importance on an international level.

In 2021, the Authority issued several Circulars on the subject of sustainable finance, for different legislative instruments, focusing on the requirements emanating from European frameworks, as well as guidance presented by the ESAs. In addition, the Authority also interacted directly with industry participants with the aim of analysing the current state of play of local market participants with respect to the Sustainable Finance Disclosure Regulation.

Throughout the year, continued importance was given to the financial stability implications that may arise from climate change. This led to a study on climate transition risk, which quantified the financial losses potentially arising in the investment portfolios held by entities operating within the Maltese financial services sector, following the hypothetical implementation of carbon tax rates. A static balance sheet assumption was applied, with results being generated at instrument, industry and entity levels.

The Authority also recently set up a central sustainable finance policy team which will support the MFSA's strategy to integrate sustainable finance regulation across the different sectors. In parallel with the required regulatory and policy developments in this space, the Authority shall be focusing on the integration of this priority into its supervision.

SECTION 2 – OUR SECTOR SPECIFIC PRIORITIES

CREDIT & FINANCIAL INSTITUTIONS

The Authority's focus for 2021 was on assessing the governance of credit and financial institutions, giving special attention to poorly run payments and e-money providers.

In 2021, the Authority agreed on an SREP Framework with the ECB. As part of the SREP assessment, the MFSA reviewed the structure and quality of boards of directors of LSIs. It determined that banks should deliver improvements and imposed qualitative requirements including, but not limited to, the appointment of further independent non-executive directors, self-assessments or external review exercises, and improvements in the control functions that support board oversight.

In this context, the Authority developed a training strategy to support the development of boards, which includes a number of webinars.

In 2021, the MFSA also reviewed the adequacy of banks' compliance functions and the challenges posed by the post-pandemic economy on banking business models' viability in Malta.
Supervisory interactions examined:

- quality of banks' controls over recognition of impaired exposures;
- board reporting on credit risk;
- preparations undertaken for any increase in credit risk profiles;
- banks' capability to identify and report credit risk in their balance sheet;
- potential consequences of further credit risk shocks.

The Authority also reviewed the level of overall balance sheet resilience provided by provisioning cover, reliance on collateral and capital adequacy.

In addition, the Authority significantly enhanced its outreach to the industry, supplemented by more efficient decision-making tools that applicants for credit institution licences can use to support the development of regulated business.

In 2021, the Authority focused on the authorisation and enforcement perspective with regards to financial institutions, to ensure a higher degree of regulatory compliance in the sector. The Authority conducted several supervisory interactions, giving priority to the institutions' business models and key risk areas. Through deep dives, thematic reviews and firm-specific engagement, the Authority examined governance quality at board level, internal governance structures and compliance controls.

The Authority also required immediate corrective action from a number of financial institutions that were falling short of key prudential requirements, most notably the safeguarding of clients' funds and the minimum own funds requirement.

In 2021, the Authority continued revising the Financial Institutions Rulebook and reporting templates, with a plan for this to be published in 2022.

THE AUTHORITY SIGNIFICANTLY ENHANCED ITS OUTREACH TO THE INDUSTRY, SUPPLEMENTED BY MORE EFFICIENT DECISION-MAKING TOOLS THAT APPLICANTS FOR CREDIT INSTITUTION LICENCES CAN USE TO SUPPORT THE DEVELOPMENT OF REGULATED BUSINESS.

INSURANCE AND PENSIONS

The Authority continued to monitor cross-border activity through close collaboration with other NCAs through meetings and Colleges, where the Authority also acted as a group supervisor. Initiatives taken include:
- the review of distribution arrangements and delegated authorities;
- engagement with national supervisors of host member states where business is being written to obtain an understanding of risks posed by such cross-border activity which then translates into supervisory work that needs to be carried out by the MFSA; and
- maintaining updated records of cross-border activity which allows the Authority to carry out more effective supervision focusing on the areas that merit the most attention.

Other highlights of 2021 include:
- engaging with undertakings affected by Brexit and participation in EIOPA's Brexit Platforms industry-wide review on effectiveness of internal committees and non-executive directors, in its final stage;
- monitoring prudential requirements relating to capital adequacy, business model profitability, liquidity, data quality and general financial soundness;
- supervisory interactions, particularly on outsourcing, including on arrangements involving managing general agents;
- supervisory work on product oversight and governance arrangements, with a specific focus on compliance functions (including when this is outsourced), internal controls and monitoring undertaken by principals in relation to distribution channels – including the delegated authority given to such;
- supervisory interactions to assess sales processes, the manufacturing and distribution of insurance products – particularly insurance-based investment products – and the timeliness of claims handling;
- engagement with MLROs of licensed entities to assess AML/CFT controls (including follow up on observations or issues identified from previous onsite visits;
- continuous monitoring of the impact of COVID-19 on the sector.

SECURITIES AND MARKETS

CAPITAL MARKETS

In addition to normal supervision and enforcement, the Authority was involved with specific regulatory and legislative developments, such as the implementation of the Covered Bonds Directive. Data quality was a key metric, affecting all entities falling within the scope of reporting data in terms of MiFID II, EMIR, Securities Financing Transactions Regulation and Central Securities Depositories Regulation (CSDR), among others. Further efforts were focused on the regulatory review of legal texts which impacted the market infrastructures' space, such as MiFID II and the CSDR.

The Authority processed an increasing number of applications for admissibility to listing of securities throughout 2021 and continued working on its Capital Markets Strategy.

Access to finance and a well-functioning capital market are important pillars for Malta's economic growth. In March 2021, the MFSA launched a consultation on its Capital Markets Strategy. The ultimate objectives of the proposed strategy are to provide equal and fair opportunities to market players, to safeguard the stability and integrity of the financial markets, and to protect investors. The proposed strategy establishes the Authority's risk appetite for the sector, enhances the legal framework, strengthens the Sponsor's Regime, builds supervisory capacity and sets out the strategy for investor education. With this in mind, the Authority proposed to revise several aspects of the Maltese regulatory framework for capital markets, by amending the Financial Markets Act to enhance the role of the Authority and its investigatory and supervisory powers, in view of the requirements of the Prospectus Regulation. In August 2021, the Authority then published a Circular which outlined the enacted amendments to the Financial Markets Act.

The Authority is also actively participating in the relevant EU discussions with regard to the EU Capital Markets Union New Action Plan and will keep open dialogue with regulated entities. The objectives of this plan include:
- supporting a green, digital, inclusive and resilient economic recovery by making financing more accessible to European companies;
- making the EU an even safer place for individuals to save and invest long-term;
- integrate national capital markets into a genuine single market.

> THE AUTHORITY PROCESSED AN INCREASING NUMBER OF APPLICATIONS FOR ADMISSIBILITY TO LISTING OF SECURITIES THROUGHOUT 2021 AND CONTINUED WORKING ON ITS CAPITAL MARKETS STRATEGY.

CROWDFUNDING

European crowdfunding service providers are now able to provide crowdfunding services on a cross-border basis throughout the EU without needing to obtain separate authorisation in each Member State, as a result of the EU-wide regulation on crowdfunding, that came into effect in November 2021.

Such regulation lays down uniform rules across the EU for the provision of investment-based and lending-based crowdfunding services related to business financing. The new Crowdfunding Regulation only applies to investment-based and lending-based crowdfunding services. Other types of crowdfunding – such as reward and donation-based crowdfunding – do not fall within the scope of this legislation.

To this extent, the Authority has created a new efficient and effective regulatory authorisation and supervisory process for new crowdfunding platforms seeking authorisation. An initial generic request for feedback on this topic was issued in the first half of 2021.

FUNDS AND SERVICE PROVIDERS

In 2021, the fourth volume of the MFSA publication "The Nature and Art of Financial Supervision" provided an overview of the Authority's approach to the supervision of fund managers, collective investment schemes, recognised persons and depositaries of collective investment schemes. It also highlighted the Authority's findings following 2020's supervisory engagements and identified a number of best practices. The Authority carried out an assessment on the adequacy of controls of licence-holders over outsourced functions, including on the initial and ongoing monitoring, and on the due diligence carried out by asset managers and collective investment schemes on service providers to whom activities have been outsourced.

The Authority also carried out substantial work with respect to ESMA's Common Supervisory Action (CSA) on Fees and Costs for UCITS management companies and UCITS. This deliverable was conducted in two phases: (a) a desk-based questionnaire on costs and fees covering the entire population of UCITS fund managers; and (b) focused inspections on a selected number of UCITS and UCITS management companies. The main scope was to determine the adequacy of fees being charged to UCITS investors compared to industry peers, and of governance practices relating to the initial setting up of fee structures as well as to their ongoing review. The outcome of this exercise will be reported to ESMA.

The Authority also published its findings and best practices in relation to the thematic liquidity risk exercise carried out in 2019 as well as the CSA on UCITS liquidity risk carried out in 2020.

In June 2021, the Authority reassessed and revised the Notified AIF Regime, sensibly broadening the scope of the applicable framework as well as further streamlining the notification process, thereby offering the fund management industry a more flexible yet robust regulatory tool. A webinar on the Alternative Investment Fund Managers Directive discussed the opportunities and challenges that its review will bring about.

Also with regards to AIFs, the Authority carried out work in relation to the launch of the Fund Return for Collective Investment Schemes and the transposition of the Cross Border Distribution of Investment Funds Directive. The Authority also published a discussion paper on its Asset Management Strategy, as previously outlined.

Finally, the Authority issued various updates on the regulatory framework in relation to the supervision of ESG Funds which took place in 2021.

ASSET MANAGEMENT STRATEGY

In line with the Authority's commitment to strengthen Malta's position as an asset management jurisdiction of choice and the importance given to this strategic sector, in October 2021 the Authority published a Discussion

Paper on the MFSA Asset Management Strategy, seeking stakeholders' views on proposed initiatives for both asset managers and fund structures. Through this consultation, the Authority aims 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.

In 2022, work on this asset management strategy will continue with the revision of all the responses received, followed by the publication of a Feedback Statement. This will lead to a concrete analysis and implementation of the individual initiatives forming part of this strategy.

INVESTMENT FIRMS

On 26 June, 2021 the IFRD came into force, introducing the new concept of K-Factors to better capture the risks of investment firms. Moreover, in view of the IFRD, the Class regime was introduced, encapsulating Class 1, Class 2 and Class 3 investment firms. This meant that new prudential reporting replaced the previous Common Reporting and financial reporting. While depositories holding a MiFID licence will be required to submit the new IFRD return, a new return was to be published at the beginning of 2022 for licence-holders only authorised to provide depository services to collective schemes. In preparation for the introduction of IFRD, the Authority engaged with the industry in various ways to ensure investment firms were properly updated and prepared.

The assessment of governance and the three lines of defence of investment firms, governance models and the effectiveness of control functions – such as the compliance function – remained a supervisory priority in 2021.
A topic of high priority for securities and markets supervision during 2021 was the Sustainable Finance Disclosures Regulation, which came into force on 10 March 2021. Regular updates were issued to the industry to ensure the smooth adoption and implementation of the regulation. Monitoring will continue into 2022 to assess compliance with the Regulation's requirements.

> THE ASSESSMENT OF GOVERNANCE AND THE THREE LINES OF DEFENCE OF INVESTMENT FIRMS, GOVERNANCE MODELS AND THE EFFECTIVENESS OF CONTROL ... REMAINED A SUPERVISORY PRIORITY IN 2021.

TRUSTEES AND COMPANY SERVICES PROVIDERS

Work on verifying the accuracy of data reported in the TUBOR continued throughout the year.

In line with the cross-sectoral priority in 2021 on "Corporate Governance and Culture", the Authority continued with its assessment of governance structures of TCSPs. This was done also through interviews with the proposed MLROs and compliance officers, as well as – in some cases – with the persons proposed to hold directorship positions in TCSPs, to better assess their competency.

The new CSP Regime

In 2021, the MFSA continued with its journey of reform on the regulatory framework for CSPs. Following a consultation exercise, the updated CSP Rulebook was published, with enhanced emphasis on sound corporate governance requirements, complemented by new concepts and requirements for the CSP sector, such as a risk management function.

This reform brought previously exempt players into the MFSA's regulatory and licensing scope. In 2021, the Authority processed 276 applications received through the new CSP regime transitory period. By 16 November 2021, CSP applicants whose business was limited within specific parameters set out in the CSP Rulebook (Under Thresholds) were granted full authorisation subject to the satisfactory outcome of the necessary pre-authorisation checks, while those exceeding such thresholds (Over Thresholds) and Class C CSPs were provisionally authorised and will proceed to the next phase of processing – which will continue throughout 2022.

	Total registrations at end 2019	Total registrations at end 2020	Total registrations at end 2021
Class A CSP	181	171	10
Class B CSP			29
Class C CSP			118
Under Threshold Class A CSP			4
Under Threshold Class B CSP			55
Total	**181**	**171**	**216**

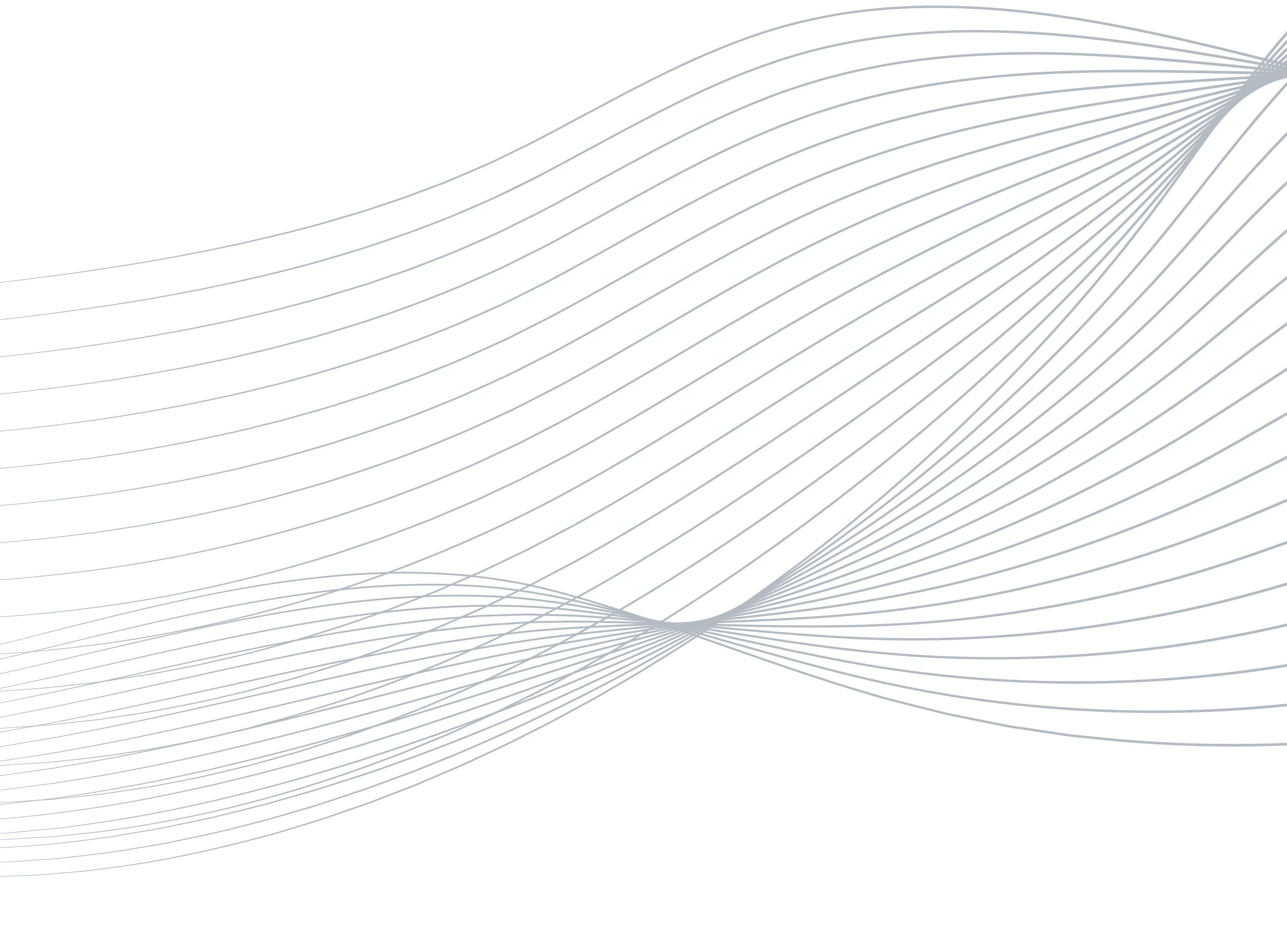
Source: Malta Financial Services Authority

From a supervisory perspective, a number of remote onsite inspections were carried out on licensed trustees and CSPs (TCSPs) targeting corporate governance and culture, particularly the effectiveness of the Board and interaction with the compliance function within a licensed TCSP. Offsite supervision work also focused on the governance structures of TCSPs through desktop reviews of data, particularly that deriving from the annual regulatory returns submitted by TCSPs. Findings from both offsite and onsite supervision also led to the imposition of remediation plans and referrals to Enforcement for further investigation and assessment, in some instances, to promote further compliance culture in the sector.

In 2021, the Authority also embarked on an extensive campaign to reach out to those CSPs who were previously exempt. Two webinars attended by over 500 stakeholders were organised by the Authority, focusing on the implementation and application process.

06
FINANCIAL STATEMENTS

31 DECEMBER 2021



CONTENTS

BOARD OF GOVERNORS' REPORT

The Governors present their report and the audited financial statements for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Malta Financial Services Authority (the 'MFSA' or 'the Authority') is the single regulator for financial services in Malta, which incorporates credit institutions, financial and electronic money institutions, securities and investment services companies, regulated markets, insurance companies, pension schemes, trustees, VFA agents and VFA service providers. The MFSA also acts as the Resolution Authority and is also responsible for the approval of prospectuses and admissibility to listing of securities on regulated markets in Malta. The Authority is a fully autonomous public institution and reports to Parliament on an annual basis. Prior to 30 April 2018, the MFSA also managed the Registry of Companies ('the Registry').

REVIEW OF THE BUSINESS

The Governors hereby report a surplus of €4,398,564 for the financial year 2021 (2020: surplus of €2,730,191). Income generated from applications fees, supervision fees and listing fees increased by 4.4% as compared with 2020. During 2021, the intention of the Authority was to continue to invest in its Human Resources and Capacity Building, as well as in Technology and BI, all in line with the MFSA's long term Strategic Plan. However, the increase on such investments was minimal in 2021 due to various factors, including an industry shortage of supply in human resources and the impact by the centralised management of public procurement under OPM which also led in slowing down some of the projected investments mainly in technology and BI. On the other hand, there was a decrease in the regulatory costs, mainly related to enforcement and compliance, due to fewer extraordinary events when compared to 2020. The COVID-19 pandemic has also brought about savings in expenditure due to less operational activities, such as reduced costs associated with travelling and cancellation of events.

Throughout 2021, the MFSA continued with its regulatory outreach by participating in seminars and creating further knowledge-sharing opportunities, also through its Financial Supervisors Academy programme. Complementing these initiatives, the MFSA continued to play a key role in the framing of national and EU-wide policies by actively contributing to meetings on legal, technical and regulatory developments with other supervisory bodies and competent authorities. The MFSA also ensured that it conducted its supervisory and enforcement work effectively – maintaining its role as a gatekeeper – as well as disseminating timely information to consumers and the media through the issuing of notices, warnings and educational campaigns.

RESULTS AND SURPLUS FUNDS

The statement of comprehensive income is set out on page 8. During 2021 and 2020, no surplus funds for the financial year were payable to Government, in terms of the Mata Financial Services Authority Act, 1988.

GOVERNORS

The Governors of the Authority who held office during the year were:

Prof. John Mamo
LLD. BLitt. (Oxon.) BA – Chairman

Dr Christopher Buttigieg
BCom. (Melit.), B. Accty. (Hons) (Melit.), M.A. Fin. Ser (Melit.), M.A. EU Law and Soc (Sussex), D.PHIL Law Studies (Sussex), C.P.A.
(Resigned as Chief Executive Officer Ad Interim on 12 September 2021)

Mr Joseph Gavin
BCL, BL, MBA, JD ***(appointed Chief Executive Officer on 13 September 2021)***

Dr Carmel Cascun
BA (Gen), BA (Socio-Legal), LP, FCII, MJur. (European & Comparative Law), NP, LLD

Mr Mark Galea
BCom. Hons (Banking & Finance)

Prof. Edward Scicluna
BA (Hons) Econ, MA (Toronto), PhD (Toronto), DSS (Oxon)

Dr Stephanie Vella
BCom. (Hons) (Econ.) (Melit.), MA (Econ.) (Melit.), PhD (Melit.)

Prof. Philip von Brockdorff
BA (Hons) (Melit.), MSc. (Econ.) (Wales), DPhil. (York), Grad. CIPD (UK)

Mr Charles Zammit
FAIA, FFA, FCMI, Dip. BA

STATEMENT OF GOVERNORS' RESPONSIBILITIES

With effect from 4 February 2022, the following persons have been re-appointed as members of the Board of Governors:

Prof. John Mamo
LLD. BLitt. (Oxon.) BA – Chairman

Dr Carmel Cascun
BA (Gen), BA (Socio-Legal), LP, FCII, MJur. (European & Comparative Law), NP, LLD

Mr Mark Galea
BCom. Hons (Banking & Finance)

Prof. Edward Scicluna
BA (Hons) Econ, MA (Toronto), PhD (Toronto), DSS (Oxon)

Dr Stephanie Vella
BCom. (Hons) (Econ.) (Melit.), MA (Econ.) (Melit.), PhD (Melit.)

Prof. Philip von Brockdorff
BA (Hons) (Melit.), MSc. (Econ.) (Wales), DPhil. (York), Grad. CIPD (UK)

Mr Charles Zammit
FAIA, FFA, FCMI, Dip. BA

In preparing the financial statements the Governors are responsible for;

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU and the Malta Financial Services Authority Act, 1988;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Authority will continue in operation as a going concern.

The Governors are also responsible for designing, implementing and maintaining internal control as the Governors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Malta Financial Services Act, 1988. They are also responsible for safeguarding the assets of the Authority and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of the Authority for the year ended 31 December 2021 are included in the Annual Report 2021, which is being made available on the Authority's website. The Governors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Authority's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

On behalf of the board

Prof. John Mamo
LLD. BLitt. (Oxon.) BA
Chairman

Mr Charles Zammit
FAIA, FFA, FCMI, Dip. BA
Governor

Registered office
Malta Financial Services Authority,
Triq l-Imdina,
Zone 1, Central Business District,
Birkirkara, Malta,
CBD 1010

18 June 2022

INDEPENDENT AUDITORS' REPORT

To the stakeholders of the Malta Financial Services Authority

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

We have audited the financial statements of the Malta Financial Services Authority set out on pages 73 to 93, which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Malta Financial Services Authority (the Authority) as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and have been prepared in accordance with the requirements of the Malta Financial Services Authority Act.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Authority in accordance with the International Code of Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER MATTERS

Our report, including the opinions, has been prepared for and only for the Authority's stakeholders as a body in accordance with Public Administration Act and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

The financial statements for the year ended 31 December 2020 were carried out by another auditor who exercised an unmodified opinion on 1 April 2021.

OTHER INFORMATION

The board members are responsible for the other information. The other information comprises the Board of Governors' statement report. Our opinion on the financial statements does not cover this information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In addition, in light of the knowledge and understanding of the Authority and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Report of the Director. We have nothing to report in this regard.

RESPONSIBILITIES OF THE BOARD MEMBERS

The Board members are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Malta Financial Services Authority Act, and for such internal control as the Board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board members are responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board members either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board members.
- Conclude on the appropriateness of the Board members' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report.However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Authority's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Authority's trade, customers, suppliers and the disruption to its business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

6, Villa Gauci, Mdina Road,
Balzan, BZN9031, Malta (EU)
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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We have responsibilities under the Companies Act (Cap.386) enacted in Malta to report to you if, in our opinion:

- The information given in the Report of the Director is not consistent with the financial statements.
- Adequate accounting records have not been kept.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

Bernard Charles Gauci (Partner) for and on behalf of

KSi Malta
Certified Public Accountants

Balzan
Malta

18 June 2022

STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2021	2020
	Notes	**€**	€
ASSETS			
Non-current assets			
Property, plant and equipment	5	**16,545,796**	17,307,627
Right-of-use assets	12	**579,747**	963,317
Intangible assets	6	**328,951**	93,411
Financial assets at amortised cost	7	**1,119,105**	1,337,441
Total non-current assets		**18,573,599**	19,701,796
Current assets			
Financial assets at amortised cost	7	**211,740**	328,209
Trade and other receivables	9	**2,892,440**	1,727,384
Cash and cash equivalents	10	**11,265,396**	6,641,883
Total current assets		**14,369,576**	8,697,476
Total assets		**32,943,175**	28,399,272
EQUITY AND LIABILITIES			
Capital and reserves			
Capital fund	13	**1,164,687**	1,164,687
Revaluation reserve	14	**5,220,690**	5,220,690
Employee pension fund reserve	15	**1,225,001**	1,150,002
Reserve fund		**15,004,704**	10,681,139
Total equity		**22,615,082**	18,216,518
Non-current liabilities			
Lease liabilities	12	**275,716**	567,978
Current liabilities			
Trade and other payables	11	**9,716,226**	9,197,505
Lease liabilities	12	**336,151**	417,271
Total current liabilities		**10,052,377**	9,614,776
Total liabilities		**10,328,093**	10,182,754
Total equity and liabilities		**32,943,175**	28,399,272

The notes on pages 77 to 93 are an integral part of these financial statements.

The financial statements on pages 73 to 93 were approved by the Board of Governors on 26 April 2022 and were authorised for issue on 18 June 2022. These were signed on its behalf by:

Prof. John Mamo
LLD. BLitt. (Oxon.) BA
Chairman

Mr Charles Zammit
FAIA, FFA, FCMI, Dip. BA
Governor

STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2021	2020
	Notes	**€**	€
Income	19	13,270,733	12,565,238
Government subvention	20	16,744,850	21,558,152
Operating expenses	16	(25,720,080)	(31,440,258)
Operating surplus for the year		4,295,503	2,683,132
Finance income	18	44,762	47,059
Other income	21	58,299	-
Surplus for the year – total comprehensive income		4,398,564	2,730,191

The notes on pages 77 to 93 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Notes	Capital fund	Revaluation reserve	Employee pension fund reserve	Reserve Fund	Total
		€	€	€	€	€
Balance at 1 January 2020		**1,164,687**	**5,220,690**	**1,075,002**	**8,025,948**	**15,486,327**
Comprehensive income						
Appropriation from income statement		-	-	-	2,730,191	2,730,191
Transfer to pension fund reserve	17	-	-	75,000	(75,000)	-
Total comprehensive income for the year		-	-	75,000	2,655,191	2,730,191
As at 31 December 2020		**1,164,687**	**5,220,690**	**1,150,002**	**10,681,139**	**18,216,518**
Balance at 1 January 2021		**1,164,687**	**5,220,690**	**1,150,002**	**10,681,139**	**18,216,518**
Comprehensive income						
Appropriation from income statement		-	-	-	4,398,564	4,398,564
Transfer to pension fund reserve	16	-	-	74,999	(74,999)	-
Total comprehensive income for the year		1,164,687	5,220,690	74,999	4,323,565	4,398,564
As at 31 December 2021		**1,164,687**	**5,220,690**	**1,225,001**	**15,004,704**	**22,615,082**

The notes on pages 77 to 93 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

		Year ended 31 December	
		2021	2020
	Notes	**€**	€
Cash flows from operating activities			
Cash generated from operations	23	**5,189,834**	529,848
Interest received	18	**-**	91,324
Net cash generated from operating activities		**5,189,834**	621,172
Cash flows used in investing activities			
Purchase of property, plant and equipment		**(298,178)**	(1,418,590)
Purchase of intangible assets	6	**(287,620)**	**(40,477)**
Redemption of investments	7	**332,938**	**500,000**
Interest income from investing activities	18	**77,330**	**-**
Proceeds from sale of assets		**13,292**	-
Net cash used in investing activities		**(162,238)**	(959,067)
Cash flows used in financing activities			
Capital repayments of lease liabilities		**(404,083)**	(480,946)
Net cash used in financing activities		**(404,083)**	(480,946)
Net movement in cash and cash equivalents		**4,623,513**	(818,841)
Cash and cash equivalents at beginning of year		**6,641,883**	7,460,724
Cash and cash equivalents at end of year	10	**11,265,396**	6,641,883

The notes on pages 77 to 93 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Malta Financial Service Authority Act, 1988. They have been prepared under the historical cost convention as modified by the fair valuation of the land and buildings class of property. The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the Governors to exercise judgement in the process of applying the Authority's accounting policies (see Note 3 – Critical accounting estimates and judgements).

During 2021, the Authority reported a surplus of €4,398,564 and a net current asset position of €22,615,082. The Governors have taken cognisance of the overall performance and cash flow position of the Authority and to that effect, a system of pre-approval of the annual subvention as approved by the House of Representatives has been agreed and established. This will be based on annual and 5-year forecasts of revenues and expenditure. On this understanding, the Board of Governors have determined that there is a reasonable expectation that the Authority will have adequate resources to continue its operations for the foreseeable future. For this reason, these accounts have been prepared on a going concern basis.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Authority. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

1.2 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in euro, which is the Authority's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

All foreign exchange gains or losses are presented in the income statement.

1.3 PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment is initially recorded at historical cost. Land and buildings, comprising mainly the Authority's offices, are shown at fair value based on periodic valuation, less subsequent depreciation of buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to profit or loss.

Items of property, plant and equipment comprise land and buildings, furniture, fixtures and fittings, and equipment and are initially recognised at acquisition cost. Subsequently they are carried at acquisition cost less subsequent depreciation and impairment losses.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amount to their residual values over their estimated useful lives, as follows:

	%
Premises	1
Furniture, fixtures and fittings	20
Equipment	20

Buildings are depreciated over an estimated useful life of 75 years while improvements carried out on leased property are depreciated over the lease period, which is three years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in the income statement. When re-valued assets are sold, the amounts included in the revaluation reserve relating to the assets are transferred to retained earnings.

1.4 INTANGIBLE ASSETS

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of four years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

1.5 FINANCIAL ASSETS

1.5.1 Classification

From 1 January 2018, the Authority classifies its financial assets in the following measurement categories;
- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Authority's financial assets are classified at amortised cost.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held-for-trading, this will depend on whether the Authority has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Authority reclassifies debt instruments when and only when its business model for managing those assets changes.

1.5.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Authority commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Authority has transferred substantially all the risks and rewards of ownership.

1.5.3 Measurement

Subsequent measurement of debt instruments depends on the Authority's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Authority classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

From 1 January 2018, the Authority assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Authority applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 1.6 for further details.

1.6 TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less loss allowance.

IFRS 9 Financial Instruments – impairment of financial assets

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

Impairment

From 1 January 2018, the Authority assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Authority applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

1.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call together with short-term, highly liquid investments that are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value.

1.8 TRADE AND OTHER PAYABLES

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.9 PROVISIONS

Provisions for legal claims are recognised when the Authority has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.10 REVENUE RECOGNITION

The Authority recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity, and when specific criteria for each of the Authority's activities have been met, as described below:

i. Income from application fees is recognised upon receipt of the application.
ii. Income from annual supervisory fees is recognised by reference to the stage of completion of the transaction, which equates to a systematic recognition of revenue as it accrues over time.
iii. Interest income from investments is reported on an accrual basis using the effective interest method.

1.11 LEASES

As explained in Note 1.1 above, the Authority has changed its accounting policy for leases where the Authority is the lessee. The new policy is described below and the impact of the change is described Note 2.

Accounting policy as from 1 January 2019

The Authority leases various vehicles and office spaces. Rental contracts are typically made for fixed periods ranging from two to three years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Authority.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities comprise the net present value of the fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Authority, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Authority where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Lease payments due within 12 months are classified as current, if not they are presented as non-current liabilities.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability.

Right-of-use assets are generally depreciated over the lease term on a straight-line basis.

Payments associated with short-term leases of vehicles and land are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Accounting policy as at 31 December 2018

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Authority as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

1.12 GOVERNMENT SUBVENTION AND EU GRANTS

Grants from the Government, including national Government and EU, are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Authority will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

STANDARDS AND INTERPRETATIONS APPLIED DURING THE CURRENT YEAR

Amendments and interpretations applicable for the first time in 2021 shown here under have been implemented. The application of the below standards and interpretations do not have an impact on the financial statements of the Authority.

Standard	Subject of amendment	Effective date
IFRS 4 Insurance Contracts	Amendments regarding replacement issues in the context of the IBOR reform	1 January 2021
IFRS 7 Financial Instruments: Disclosures	Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2021
IFRS 9 Financial Instruments	Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2021
IFRS 16 Leases	Amendments regarding replacement issues in the context of the IBOR reform	1 January 2021
	Amendment to extend the exemption from assessing whether a COVID-19 related rent concession is a lease modification	1 April 2021
IAS 39 Financial Instruments: Recognition and Measurement	Amendments regarding replacement issues in the context of the IBOR reform	1 January 2021

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Authority's financial statements are disclosed below. The Authority intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Standard	Subject of amendment	Effective date
IFRS 1 First-time Adoption of International Financial Reporting Standards	Amendments resulting from *Annual Improvements to IFRS Standards 2018* –2020 (subsidiary as a first-time adopter)	1 January 2022
IFRS 3 Business Combinations	Amendments updating a reference to the *Conceptual Framework*	1 January 2022
IFRS 4 Insurance Contracts	Amendments regarding the expiry date of the deferral approach	1 January 2023
IFRS 9 Financial Instruments	Amendments resulting from *Annual Improvements to IFRS Standards 2018* –2020 (fees in the '10 per cent' test for derecognition of financial liabilities)	1 January 2022
IFRS 17 Insurance Contracts	Original issue	1 January 2023
	Amendments to address concerns and implementation challenges that were identified after IFRS 17 was published (includes a deferral of the effective date to annual periods beginning on or after 1 January 2023)	1 January 2023
IAS 1 Presentation of Financial statements	Amendments regarding the classification of liabilities	1 January 2023
	Amendment to defer the effective date of the January 2020 amendments	1 January 2023
	Amendment regarding the disclosure of accounting policies	1 January 2023
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Amendments regarding the definition of accounting estimates	1 January 2023
IAS 12 Income Taxes	Amendments regarding deferred tax on leases and decommissioning obligations	1 January 2023
IAS 16 Property, Plant and Equipment	Amendments prohibiting an Authority from deducting from the cost of property, plant and equipment amounts received from selling items produced while the Authority is preparing the asset for its intended use	1 January 2022
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	Amendments regarding the costs to include when assessing whether a contract is onerous	1 January 2022

The Board of Governors is of the opinion that the adoption of these Standards (where applicable) will not have a material impact on the financial statements.

3. FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

The Authority's activities potentially expose it to a variety of financial risks namely market risk, credit risk and liquidity risk. The Authority's risk management is coordinated by the Board of Governors and focuses on actively securing the Authority's short to medium term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Authority does not actively engage in trading of financial assets for speculative purposes nor does it write options. The most significant financial risks that the Authority is exposed to are described below.

(a) Market risk

In view that the investments in Malta Government Bonds (see Note 7) are accounted for at amortised cost, the Governors do not consider that the Authority is exposed to significant market risk.

(b) Credit risk

The Authority's exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below. The Authority's exposures to credit risk as at the end of the reporting periods are analysed as follows:

	Notes	**2021**	2020
		€	€
Financial assets at amortised cost	7	**1,330,845**	1,665,649
Trade and other receivables	9	**1,224,639**	552,703
Cash and cash equivalents	11	**11,265,396**	6,641,883
		13,820,880	8,860,235

The Authority assesses the credit quality of its customers taking into account financial position, past experience and other factors. It has policies in place to ensure that sales of services are effected to customers with an appropriate credit history. The Authority monitors the performance of its receivables on a regular basis to identify incurred collection losses, which are inherent in the Authority's receivables, taking into account historical experience.

The Authority's receivables, which are not impaired financial assets, are principally in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers. None of the Authority's financial assets are secured by collateral.

As at 31 December 2021, trade receivables of €1,092,570 (2020: €1,419,730) were impaired, and the amount of the provisions in this respect are equivalent to these amounts. Reversal of provisions for impairment arises in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The Authority does not hold any collateral as security in respect of the impaired assets.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2021	2020
	€	€
Balance at beginning of year	**1,419,730**	990,537
(Decrease)/ Increase in loss allowance on trade receivables	**(327,160)**	429,193
Balance at end of year	**1,092,570**	1,419,730

Credit risk in relation to cash and cash equivalents and held-to-maturity investments is considered to be limited, since the counterparts and issuer are reputable banks, and the Government of Malta respectively.

(c) Liquidity risk

The Authority is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise trade and other payables (Note 11). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Authority's obligations.

The Authority monitors liquidity risk by reviewing expected cash flows and ensures that no additional financing facilities are expected to be required over the coming year. The Authority's liquidity risk is not deemed material in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments.

3.2 CAPITAL RISK MANAGEMENT

The Authority's equity, as disclosed in the statement of financial position, constitutes its capital. The Authority's objectives when managing capital are to safeguard the respective entity's ability to continue as a going concern in order to provide returns and benefits for stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Authority's equity is maintained in line with the provisions set within the Malta Financial Services Authority Act, 1988.

In view of the nature of the Authority's activities and its financial position, the capital level as at the end of the reporting period is deemed adequate by the Governors.

3.3 FAIR VALUES OF FINANCIAL INSTRUMENTS

The table overleaf analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as Level 1 in view of the quoted prices (unadjusted) in active markets for identical assets or liabilities.

The following table presents the Authority's assets and liabilities that are measured at fair value at the respective dates:

	Level 1
	€
31 December 2021	
Financial assets at amortised cost	**1,330,845**
31 December 2020	
Financial assets at amortised cost	1,655,649

At 31 December 2021 and 2020 the carrying amounts of cash at bank, receivables, payables and accrued expenses reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the Governors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

5. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Furniture, fixtures and fittings	Equipment	Total
	€	€	€	€
Year ended 31 December 2020				
Opening net book amount	14,770,309	562,688	1,701,077	17,034,074
Additions	73,318	92,682	1,252,590	1,418,590
Disposals	-	-	(1,179)	(1,179)
Depreciation charge	(166,186)	(141,354)	(836,790)	(1,144,330)
Depreciation released on disposal	-	-	472	472
Closing net book amount	**14,677,441**	**514,016**	**2,116,170**	**17,307,627**
At 31 December 2020				
Cost or valuation	16,000,947	2,802,940	8,323,907	27,127,794
Accumulated depreciation	(1,323,506)	(2,288,924)	(6,207,737)	(9,820,167)
Net book amount	**14,677,441**	**514,016**	**2,116,170**	**17,307,627**
Year ended 31 December 2021				
Opening net book amount	14,677,441	514,016	2,116,170	17,307,627
Additions	27,781	37,910	237,035	302,726
Disposals	-	-	(218,998)	(218,998)
Depreciation charge	(105,915)	(139,555)	(816,620)	(1,062,090)
Depreciation released on disposal	-	-	216,532	216,532
Closing net book amount	**14,599,307**	**412,371**	**1,534,119**	**16,545,797**
At 31 December 2021				
Cost or valuation	16,028,728	2,840,850	8,341,944	27,211,522
Accumulated depreciation	(1,429,422)	(2,428,479)	(6,807,825)	(10,665,726)
Net book amount	**14,599,306**	**412,371**	**1,534,119**	**16,545,796**

Fair value of land and buildings

The Authority's office building was revalued on 31 December 2017 by independent professionally qualified valuers. The valuation was conducted by DeMicoli & Associates (a firm of architects). The book value of the property was adjusted to the revaluation and the resultant surplus was credited to the revaluation reserve (refer to Note 15). The Board of Governors has reviewed the carrying amount of the property as at 31 December 2021 and no adjustments to the carrying amount were deemed necessary as at that date taking cognisance of developments that occurred during the current financial year.

The Authority is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

The recurring property fair value measurement at 31 December 2021 uses significant unobservable inputs and is accordingly categorised within Level 3 of the fair valuation hierarchy.

The Authority's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the year ended 31 December 2021.

A reconciliation from the opening balance to the closing balance of non-financial assets for recurring fair value measurements categorised within Level 3 of the value hierarchy, is reflected in the table above.

Valuation processes

The valuation of the property is performed regularly on the basis of valuation reports prepared by independent and qualified valuers. At the end of every reporting period, management assesses whether any significant changes in the major inputs have been experienced since the last external valuation. Management reports to the Board of Governors on the outcome of this assessment.

When an external valuation report is prepared, the information provided by the valuers – and the assumptions and the valuation models used by the valuers – are reviewed by the Chief of Operations (COO). This includes a review of fair value movements over the period. When the COO considers that the valuation report is appropriate, the valuation report is recommended to the Board of Governors. The Board of Governors considers the valuation report as part of its overall responsibilities.

Valuation techniques

The Level 3 fair valuation of the Authority's land and buildings was determined by using a comparative approach whereby the current selling prices and rental values of similar developments were compared in order to obtain an equitable rental value of the property. The significant unobservable inputs in the valuation include:

Equivalent rental values	based on the actual location, type and quality of property supported by current market rents for similar properties.
Capitalisation rates	based on actual location, size and quality of the property and taking into account market data at the valuation date.

Information about fair value measurements using significant unobservable inputs (level 3)

			Significant unobservable inputs	
Description	**Fair value at 31 December 2021 and 2020**	**Valuation technique**	**Equivalent rental value**	**Capitalisation Rate**
	€		€	%
Office building	14.59m	Comparative and Investment method	0.91m	6.25

The higher the rental yield and the lower the capitalisation rate, the higher the fair value. Conversely, the lower the rental value and the higher the capitalisation rate, the lower the fair value.

Historical cost of land and buildings

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2021	2020
	€	€
Cost	**10,808,039**	10,780,258
Accumulated depreciation	**(1,277,415)**	(1,194,672)
Net book amount	**9,530,624**	9,585,586

6. INTANGIBLE ASSETS

	Computer Software
	€
At 31 December 2020	
Cost	162,536
Accumulated depreciation	(69,125)
	93,411
Year ended 31 December 2021	
Opening net book amount	93,411
Depreciation charge	(52,080)
Additions	287,620
Closing net book amount	**328,951**
At 31 December 2021	
Cost	450,156
Accumulated depreciation	(121,205)
Net book amount	**328,951**

7. FINANCIAL ASSETS AT AMORTISED COST

Financial assets include the following investments:

	2021	2020
	€	€
Non-current		
Financial assets at amortised cost	**1,119,105**	1,337,440
Current		
Financial assets at amortised cost	**211,740**	328,209
As at 31 December	**1,330,845**	1,665,649

The movements during the year in financial assets at amortised cost, which comprise Malta Government Bonds, were as follows;

	2021	2020
	€	€
Opening net book amount	**1,665,649**	2,167,493
Redemptions	**(332,938)**	(500,000)
Amortisation	**(1,866)**	(1,844)
Closing net book amount	**1,330,845**	1,665,649

8. INVESTMENT IN SUBSIDIARY

The Authority's investment in Malta International Training Centre Limited, in which it owned 99.9% of the Authority's shares, was sold on 1 April 2019 on a going concern basis.

9. TRADE AND OTHER RECEIVABLES

	2021	2020
	€	€
Current		
Trade receivables – gross	**2,317,209**	1,972,433
Less: Loss allowance on trade receivables	**(1,092,570)**	(1,419,730)
Trade receivables – net	**1,224,639**	552,703
Other receivables	**196,207**	-
Amounts due to Malta Business Registry	**22,231**	-
Prepayments	**1,423,347**	1,143,843
Accrued income	**26,016**	30,838
	2,892,440	1,727,384

10. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2021	2020
	€	€
Cash and cash equivalents	**11,265,396**	6,641,883
	11,265,396	6,641,883

11. TRADE AND OTHER PAYABLES

	2021	2020
	€	€
Current		
Trade payables	**1,126,420**	1,705,546
Amount due to Malta Business Registry	**-**	1,151,518
Indirect taxation	**838,840**	409,711
Accruals	**2,082,114**	2,246,158
Deferred government subvention	**4,200,834**	2,445,684
Deferred income	**1,468,018**	1,238,888
	9,716,226	9,197,505

The Authority provisionally holds on deposit with the Central Bank of Malta an amount of €Nil (2020: €Nil), included within other creditors, as part of its duty as a regulatory body.

12. LEASE LIABILITIES

This note provides information for leases where the Authority is a lessee.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2021	2020
	€	€
Right-of-use assets		
Vehicles	-	73,707
Offices	579,747	889,610
	579,747	963,317
Lease liabilities		
Current	336,151	417,271
Non-current	275,716	567,978
	611,867	985,249

(ii) Amounts recognised in the income statement

The statement of profit or loss shows the following amounts relating to leases:

	2021	2020
	€	€
Depreciation charge of right of-use of assets		
Vehicles	73,707	102,973
Offices	308,703	346,867
	382,410	449,840
Interest expense (included in finance income/cost)	30,702	44,625

13. CAPITAL FUND

The capital fund of €1,164,687 represents the initial contribution by the Government to the Authority in 1989 upon its establishment.

14. REVALUATION RESERVE

	2021	2020
	€	€
As at 31 December	5,220,690	5,220,690

The revaluation reserve is not distributable and represents the accumulated fair value movements on the Authority's land and buildings.

15. EMPLOYEE PENSION FUND

	2021	2020
	€	€
Balance as at 1 January	1,150,002	1,075,002
Transfer for the year	74,999	75,000
As at 31 December	1,225,001	1,150,002

The employee pension fund reserve has been created to set aside reserves to prepare for the potential employee pension fund that may be set up for the benefit of the employees at the opportune time.

16. EXPENSES BY NATURE

	2021	2020
	€	€
Depreciation of property, plant and equipment (Note 5)	**1,062,090**	1,144,329
Depreciation of intangible assets (Note 6)	**52,080**	38,610
Employee costs (Note 17)	**19,335,600**	18,157,636
Professional fees	**294,590**	674,507
Regulatory support fees	**250,246**	2,321,965
Enforcement and compliance fees	**(76,477)**	3,674,991
Increase/(decrease) on loss allowance on trade receivables	**(327,160)**	429,193
Communications and events	**123,872**	245,819
Governors' emoluments	**96,746**	90,767
Other administrative expenses	**4,908,493**	4,662,441
Total operating expenses	**25,720,080**	31,440,258

Auditor's fees

Fees charged by the auditor for the statutory audit amount to €15,000 (2020: €15,000).

17. EMPLOYEE COSTS

	2021	2020
	€	€
Wages and salaries	**17,582,496**	16,354,337
Social security costs	**1,011,757**	948,363
Other staff costs	**741,347**	854,936
	19,335,600	18,157,636

Average number of persons employed by the Authority during the year:

	2021	2020
Managerial	**384**	340
Administration	**31**	42
	415	382

18. FINANCE INCOME

	2021	2020
	€	€
Interest income from demand deposits	**-**	97
Interest income from government bonds	**77,330**	91,227
Interest charges for lease liabilities	**(30,702)**	(44,265)
Amortisation of MGS premium	**(1,866)**	-
	44,762	47,059

19. INCOME

	2021	2020
	€	€
Authorisations	**665,975**	894,200
Securities and markets supervision	**2,817,768**	2,750,443
Insurance and pensions supervision	**2,538,583**	2,548,837
Conduct	**624,226**	586,986
Banking supervision	**5,033,478**	4,913,702
Listing authority income	**1,138,124**	587,775
Fintech	**452,579**	283,295
Total income	**13,270,733**	12,565,238

20. GOVERNMENT SUBVENTION

The government subvention represents a contribution by Government towards the Authority to ensure that it has adequate resources to continue its operations and meet its obligations as the single regulator for financial services in Malta.

21. OTHER INCOME

	2021	2020
	€	€
EU grants designated for specific purposes	**20,883**	-
Disposal of assets	**15,373**	-
Other	**22,043**	-
	58,299	-

EU funds designated for specific purposes amounting to €20,883 at 31 December 2021 (2020: €Nil) are amortised to profit or loss over the term of the service concession.

22. TAX EXPENSE

Section 30 of the Malta Financial Services Authority Act, Cap 330, exempts the Authority from any liability to pay income taxes.

23. CASH GENERATED FROM OPERATIONS

Reconciliation of operating surplus generated from operations:

	2021	2020
	€	€
Operating surplus for the year	**4,398,564**	2,683,132
Adjustments for:		
Depreciation of property, plant and equipment (Note 5)	**1,062,090**	1,144,329
Depreciation of intangible assets (Note 6)	**52,080**	38,610
Depreciation of right-of-use assets (Note 13)	**383,570**	449,840
(Loss)/Profit on sale of property, plant and equipment (Note 5)	**(15,373)**	707
Amortisation of investment (Note 7)	**1,866**	1,844
Increase/(decrease) in loss allowance on trade receivables (Note 9)	**327,160**	429,193
Interest paid	**30,702**	-
Interest received	**(77,330)**	-
Changes in working capital:		
Trade and other receivables	**(1,492,215)**	(540,179)
Amounts due from government	**-**	4,944,000
Trade and other payables	**518,720**	(8,621,628)
Cash generated from/(used in) operations	**5,189,834**	529,848

24. COMMITMENTS

	2021	2020
	€	€
Capital expenditure		
Capital expenditure that has been contracted for but not yet accounted for in the Financial Statements	**357,978**	139,821
Capital expenditure that has been authorised by the Board of Governors but has not yet been contracted for	**1,642,602**	2,222,047

25. CONTINGENCIES

The Authority has not provided for claims instituted against it by a number of persons on the basis that the proceedings are still at an early stage and the potential financial impact and probable outcome of these claims has as yet not been quantified.

26. RELATED PARTY TRANSACTIONS

Except for transactions disclosed or referred to previously, the following significant transactions, which were carried out principally with related entities, have a material effect on the operating results and financial position of the Authority:

	2021	2020
	€	€
Amounts due from/(to) Malta Business Registry (Notes 9 and 11)	**22,231**	(1,151,518)

Key management personnel compensation, consisting of Governors' remuneration is disclosed in Note 16.

27. STATUTORY INFORMATION

The Malta Financial Services Authority (the 'MFSA' or 'the Authority') is the single regulator for financial services in Malta enacted by virtue of the Malta Financial Services Act, 1988 and reports to the Maltese Parliament.

On 20 March 2018, by virtue of Act No. VI of 2018, Articles 2(2) and 6, it had been established that the Registry of Companies shall no longer form part of the Malta Financial Services Authority.

07
STATISTICAL COMPENDIUM

STATISTICAL COMPENDIUM

The sum of figures shown in the tables may not exactly add up due to rounding.
Source of all charts in the Statistical Compendium: Malta Financial Services Authority.
Cut-off date of figures is February 2022.

CHART 1: Licence-holder population as at 31 December, 2021

Credit institutions	22
Financial institutions	52
Investment Companies, comprising:	**766**
• *Fund Administrators*	*18*
• *Investment Funds*	*600*
• *Investment Service Providers*	*148*
Insurance Entities, comprising:	**683**
• *Insurance Undertakings*	*71*
• *Insurance Intermediaries*	*243*
• *Tied Insurance Intermediaries*	*369*
Pension Schemes and Funds	54
Trustees, comprising:	**231**
• *Trustees & Fiduciary Services*	*162*
• *Nominees*	*8*
• *Trusts*	*61*
CSPs	216
VFAs	27

BANKING[1]

CHART 2: Branches and ATMs (2019-2021)

	2019	2020	2021
Branches	112	102	94
ATMs	211	201	201

1 The banking sector classification as at end-2021 was as follows:
The 'core domestic banks' are made up of the following credit institutions: APS Bank Limited, Bank of Valletta plc, BNF Bank plc, HSBC Bank Malta plc, Lombard Bank Malta plc, and MeDirect Bank (Malta) plc.
The 'non-core domestic banks' category consists of the following credit institutions: FCM Bank Limited, FIMBank plc, IIG Bank (Malta) Limited, Izola Bank plc, Merkanti Bank Ltd, and Sparkasse Bank Malta plc.
'Other banks' comprises the following credit institutions: AgriBank plc, Akbank T.A.S. (branch), Credit Europe Bank N.V. Branch Malta, Credorax Bank Limited, ECCM Bank plc, European Depositary Bank SA (branch), Ferratum Bank Limited, NBG Bank Malta Limited, Novum Bank Limited, and Turkiye Garanti Bankasi A S (branch).

CHART 3: Capital Requirements Ratio and Tier 1 Capital Ratio (2019-2021) (%)				
		2019	2020	2021
Capital Requirements Ratio	**Core Domestic Banks**	19.7	20.4	21.4
	Non-Core Domestic Banks	17.9	19.6	19.5
	Other Banks	47.1	52.2	46.9
	Aggregate Banking Sector	23.3	24.5	24.5
Tier 1 Capital Ratio	**Core Domestic Banks**	17.3	17.5	18.4
	Non-Core Domestic Banks	17.9	19.6	19.5
	Other Banks	46.8	52.0	46.6
	Aggregate Banking Sector	21.5	22.3	22.2

CHART 4 · Assets (2019-2021) (€ million)

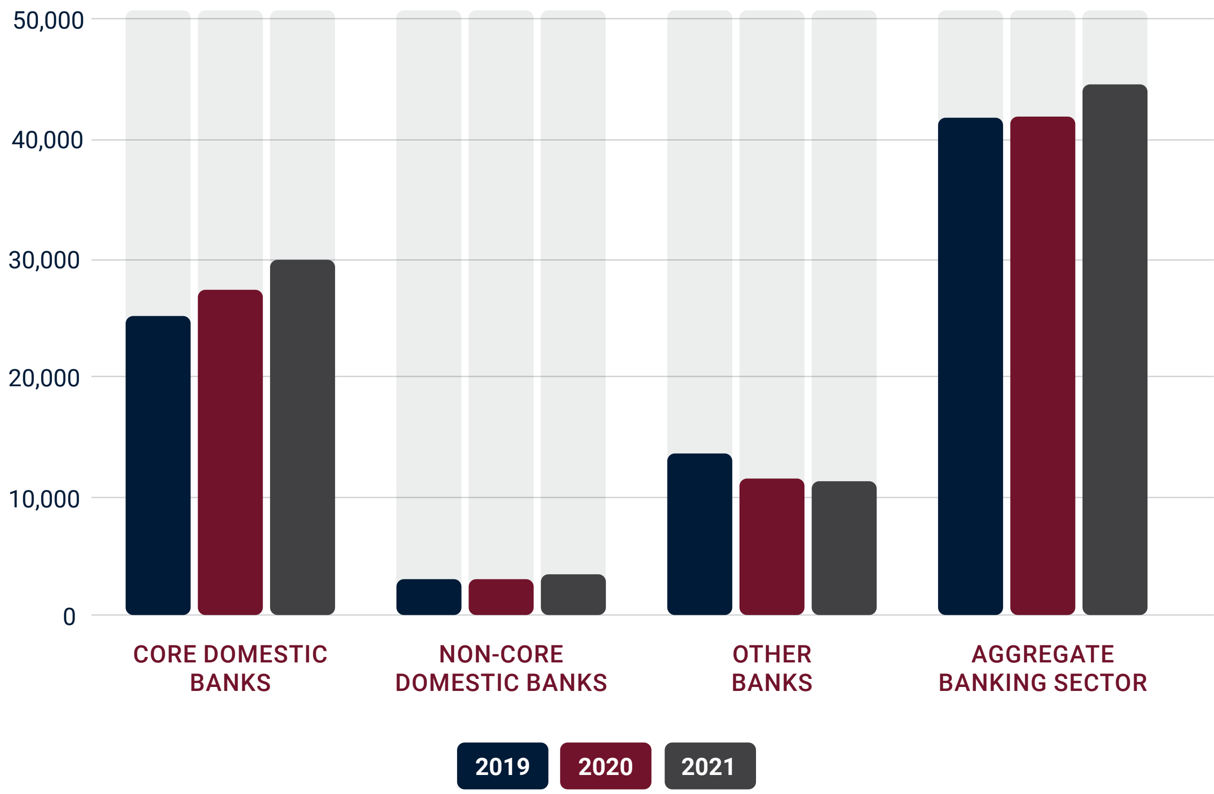


CHART 5: Distribution of assets (2021) (€ million)					
	Cash, cash balances at central banks and other demand deposits	Loans and receivables	Debt Instruments	Equity Instruments	Other assets
Core Domestic Banks	7,222.6	14,857.9	6,757.5	118.0	864.6
Non-Core Domestic Banks	910.3	1,168.1	1,194.9	47.4	130.4
Other Banks	1,785.3	5,519.0	2,772.7	128.2	1,048.6
Aggregate Banking Sector	9,918.2	21,545.0	10,725.1	293.6	2,043.6

CHART 6 · Loans and advances (2019-2021) (€ million)

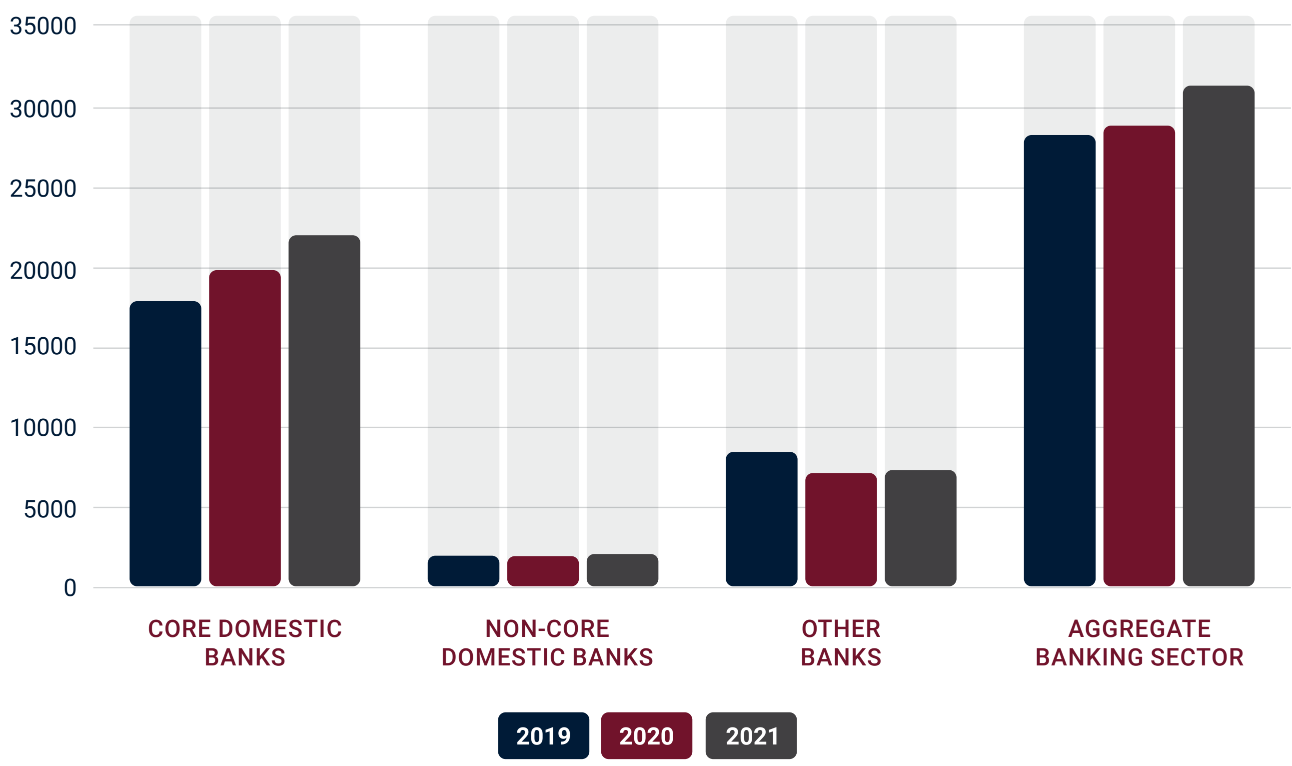


CHART 7: Loans and advances – top eight sectors (2021) (€ million)

	Households and individuals	Credit institutions	Wholesale and retail trade	Manufacturing
Core Domestic Banks	8,880.1	1,412.2	667.3	304.7
Non-Core Domestic Banks	65.3	323.2	214.1	221.1
Other Banks	356.9	2,054.5	186.1	513.5
Aggregate Banking Sector	9,302.3	3,789.9	1,067.5	1,039.3

	Transportation and storage	Construction	Real estate	Accommodation and food service
Core Domestic Banks	284.7	439.3	717.5	694.3
Non-Core Domestic Banks	17.3	84.1	101.1	12.5
Other Banks	1,512.6	565.8	95.4	97.3
Aggregate Banking Sector	1,814.6	1,089.2	914.0	804.1

CHART 8 · Deposits (2019-2021) (€ million)

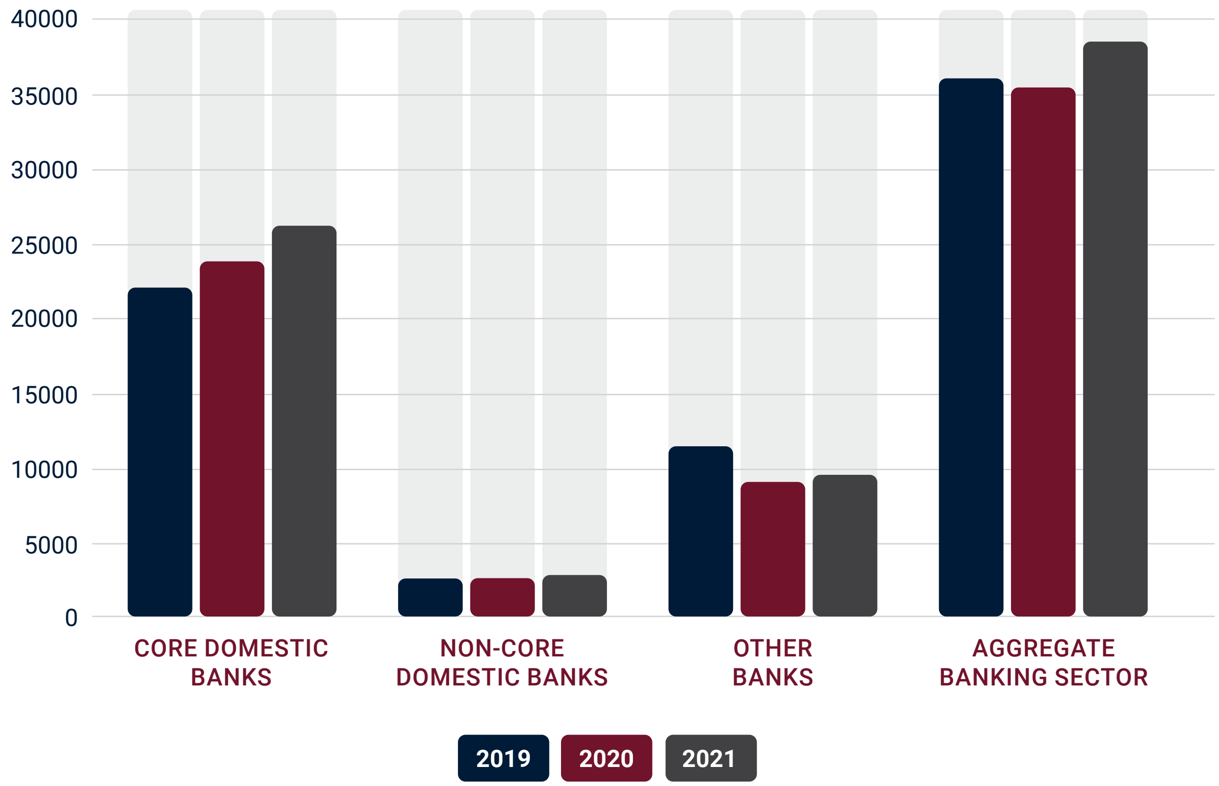


CHART 9: Distribution of deposits (2021) (%)

	Current accounts / overnight deposits	Deposits with agreed maturity	Deposits redeemable at notice	Repurchase agreements
Core Domestic Banks	79.1	17.4	2.5	1.0
Non-Core Domestic Banks	44.7	48.0	0.0	7.3
Other Banks	9.2	72.0	3.7	15.1
Aggregate Banking Sector	59.3	33.1	2.6	5.0

CHART 10: Geographical distribution of banking sector activities (2021) (%)

	Residents	Non-residents
Loans	56.1	43.9
Deposits	63.3	36.7

SECURITIES & INVESTMENT SERVICES

CHART 11: New Issues on the Malta Stock Exchange

	2020	2021
Corporate Bonds	6	8
MGS	17	21
Equities	0	4
Total	**23**	**33**
Aggregate Nominal Value (€m)	1,511	1,927

CHART 12 · Market turnover on the Malta Stock Exchange (€ million)

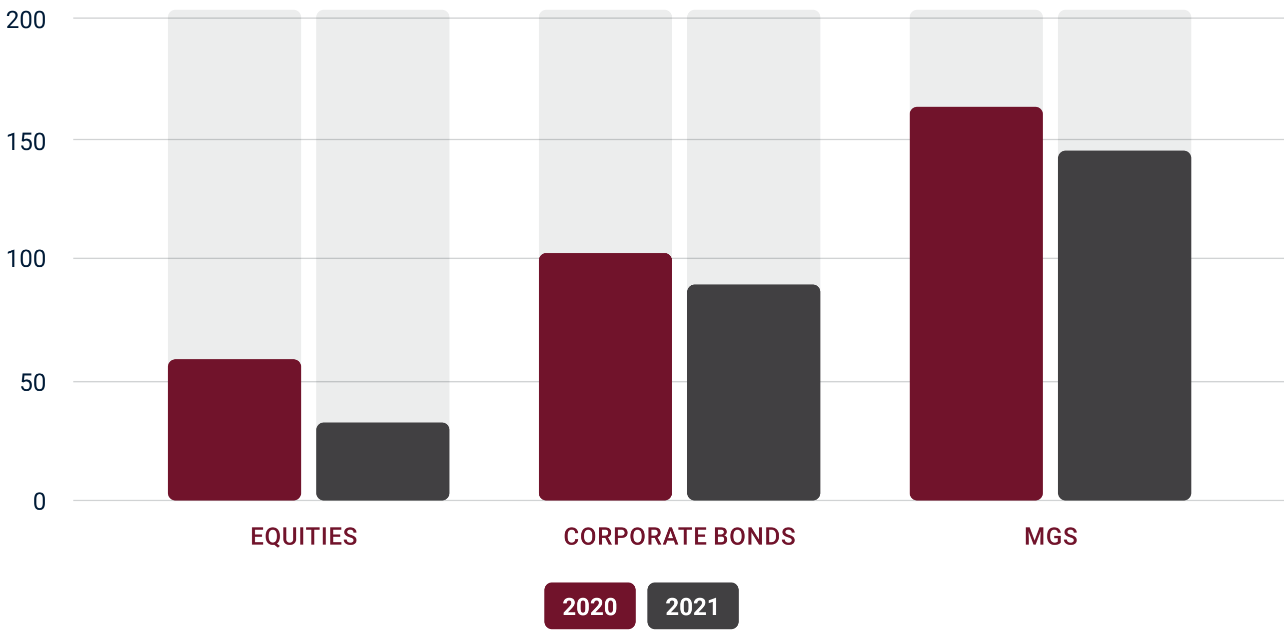


CHART 13: Net Asset Value of Malta-domiciled funds (€ million)

	NAV (€ million) 2019	NAV (€ million) 2020	NAV (€ million) 2021
UCITS	3,113.7	2,672.6	3,374.2
Non-UCITS	12,797.5	12,062.5	17,083.6
Total	**15,911.2**	**14,735.1**	**20,457.8**

CHART 14: Net asset value by asset allocation – 2021 (€ million and % share)

	NAV (€ million) at end 2021	% share
Diversified	8,533.3	41.7
Equity	6,560.5	32.1
Bond	2,135.8	10.5
Other	1,337.4	6.5
Mixed	792.6	3.9
Property	1,005.5	4.9
Hedge	68.6	0.3
Commodity	24.1	0.1
Total	**20,457.8**	**100.0**

CHART 15: Management of Malta-domiciled funds

	% of funds (incl. sub-funds) at end 2020	% of funds (incl. sub-funds) at end 2021
Self-managed	38.8	35.3
Managed in Malta	40.7	47.2
Managed from outside Malta	20.5	17.5
Total	**100.0**	**100.0**

CHART 16: Administration of Malta-domiciled funds

	% of funds (incl. sub-funds) at end 2020	% of funds (incl. sub-funds) at end 2021
Administered in Malta	89.4	89.9
Administered from outside Malta	10.6	10.1
Total	**100**	**100**

CHART 17: Non-Malta-domiciled funds

	Funds (incl. sub-funds) at end 2020	Funds (incl. sub-funds) at end 2021
Non-Malta-domiciled funds administered in Malta	200	220
Non-Malta-domiciled funds managed in Malta	98	94

CHART 18: Net asset value of Non-Malta-domiciled funds (€ million)

	NAV (€ million) 2020	NAV (€ million) 2021
Non-Malta-domiciled funds administered in Malta	3,998	6,158
Non-Malta-domiciled funds managed in Malta	13,886	14,268

INSURANCE AND PENSIONS

CHART 19: Solvency Capital Requirement (SCR) Ratio and Minimum Capital Requirement (MCR) Ratio (%)

	SCR Ratio			MCR Ratio		
	Life	Non-Life	Reinsurance	Life	Non-Life	Reinsurance
2019	240.1	187.7	411.5	606.7	512.0	934.7
2020	208.0	193.0	364.0	531.0	527.0	780.0
2021	211.7	187.4	345.7	499.5	529.4	790.1

CHART 20: Gross Written Premiums (€ million)

	General Business Sector		Long-term business sector	
	Risks in Malta	Risks outside Malta	Risks in Malta	Risks outside Malta
2019	201.6	3,564.5	362.6	1,059.8
2020	202.5	4,525.9	344.8	1,072.9
2021	223.7	6,147.8	399.9	1,691.5

CHART 21: Gross Claims Paid (€ million)

	General Business Sector		Long-term business sector	
	Risks in Malta	Risks outside Malta	Risks in Malta	Risks outside Malta
2019	95.8	1,616.9	261.3	500.4
2020	95.5	2,324.1	317.4	524.1
2021	89.1	2,678.6	368.5	847.5

CHART 22: Loss ratio for general business undertakings writing direct and reinsurance business (other than that written by pure reinsurance) and pure reinsurance (%)

Licence Type	Direct			Reinsurance		
	Loss Ratio B	Expense Ratio	Combined Ratio	Loss Ratio B	Expense Ratio	Combined Ratio
2019	40.6	29.1	69.7	87.2	5.3	92.5
2020	45.9	23.1	69.1	85.8	7.6	93.4
2021	48.6	26.0	74.7	84.0	13.7	97.7

CHART 23: Insurance penetration (%)[2,3]

	General Business – HO Malta	General Business – HO outside Malta	Long-term business – HO Malta	Long-term business – HO outside Malta
2018	1.4	2.8	3.2	1.4
2019	1.5	3.5	2.7	1.1
2020	1.5	4.0	2.6	1.0

CHART 24: Insurance density (€) [4,5]

	General Business – HO Malta	General Business – HO outside Malta	Long-term business – HO Malta	Long-term business – HO outside Malta
2018	345.9	699	810.7	367.0
2019	393.1	926	707.1	294.7
2020	391.9	1,004	667.7	260.7

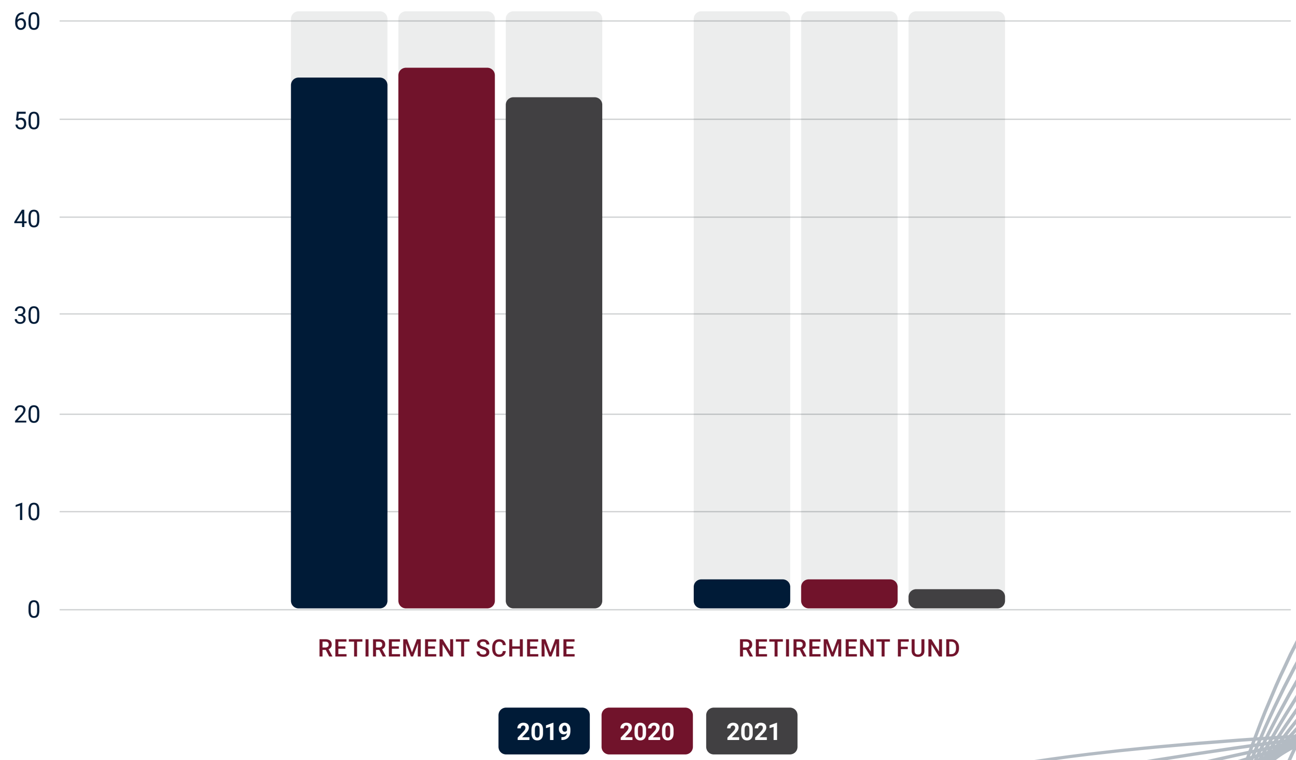
2 The insurance penetration rate is expressed as the gross written premiums in respect of risks and commitments in Malta to gross domestic product.

3 Figures for undertakings with Head Office outside Malta writing general and long-term business in relation to risks in Malta during 2021 were unavailable at the time of preparation of this report.

4 The insurance density is expressed as the gross written premiums in respect of risks and commitments in Malta to population size.

5 Figures for undertakings with Head Office outside Malta writing general and long-term business in relation to risks in Malta during 2021 were unavailable at the time of preparation of this report.

CHART 25 · Pension Schemes



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APPENDICES

APPENDIX 1

FINANCIAL SERVICES LEGISLATION PUBLISHED IN 2021

PRIMARY LEGISLATION

1. Various Financial Services Laws (Amendment) Act, 2021
   - Published as Act XLVI of 2021 on 23.07.2021
2. Various Financial Services Laws (Amendment No. 2) Act, 2021
   - Published as LXXI of 2021 on 28.12.2021
3. Various Financial Services Laws (Amendment No. 3) Act, 2021
   - Published as Act LXXII of 2021 on 28.12.2021

SECONDARY LEGISLATION

1. Recovery and Resolution (Amendment) Regulations, 2021
   - Published as LN 6 of 2021 on 08.01.2021
2. Company Service Providers (Amendment) Act 2020 (Act No. L of 2020) – Commencement Notice
   - Published as LN 96 of 2021 on 12.03.2021
3. Company Service Providers (Exemption) Regulations, 2021
   - Published as LN 105 of 2021 on 16.03.2021
4. Virtual Financial Assets Act (Amendment) Regulations, 2021
   - Published as LN 106 of 2021 on 16.03.2021
5. Company Service Providers Act (Fees) (Amendment) Regulations, 2021
   - Published as LN 117 of 2021 on 26.03.2021
6. Malta Financial Services Authority Act (Securitisation) Regulations, 2021
   - Published as LN 118 of 2021 on 26.03.2021
7. Retirement Pensions (Control of Assets) (Amendment) Regulations, 2021
   - Published as LN 214 of 2021 on 18.05.2021
8. Investment Services Act (List of Notified AIFs) (Amendment) Regulations, 2021
   - Published as LN 240 of 2021 on 11.06.2021
9. Retirement Pensions (Cross-Border Activities and Cross-Border Transfers) (Amendment) Regulations, 2021
   - Published as LN 260 of 2021 on 18.06.2021
10. Insurance Business (Supervision of Insurance and Reinsurance Undertakings in a Group) (Amendment) Regulations, 2021
    - Published as LN 278 of 2021 on 02.07.2021
11. European Passport Rights for Insurance and Reinsurance Undertakings (Amendment) Regulations, 2021
    - Published as LN 279 of 2021 on 02.07.2021
12. Investment Services Act (Exemption) (Amendment) Regulations, 2021
    - Published as LN 285 of 2021 on 09.07.2021
13. Appointment of the Competent Authority (Investment Firms Regulation and Investment Firms Directive) Regulations, 2021
    - Published as LN 309 of 2021 on 23.07.2021
14. Various Financial Services Laws (Amendment) Act, 2020 (Act V of 2020) – Commencement Notice
    - Published as LN 311 of 2021 on 23.07.2021

15. Investment Services Act (UCITS Management Company Passport) (Amendment) Regulations, 2021
    - Published as LN 333 of 2021 on 27.08.2021

16. Investment Services Act (Alternative Investment Fund Manager) (Passport) (Amendment) Regulations, 2021
    - Published as LN 334 of 2021 on 27.08.2021

17. Financial Conglomerates (Amendment) Regulations, 2021
    - Published as LN 359 of 2021 on 10.09.2021

18. Investment Services Act (Marketing of Alternative Investment Funds) (Amendment) Regulations, 2021
    - Published as LN 360 of 2021 on 10.09.2021

19. Investment Services Act (Marketing of UCITS) (Amendment) Regulations, 2021
    - Published as LN 361 of 2021 on 10.09.2021

20. Retirement Pensions (Transitional Provisions on Back-Office Administrators) (Revocation) Regulations, 2021
    - Published as LN 472 of 2021 on 14.12.2021

21. Declaration of Bank Holidays Order, 2021
    - Published as LN 473 of 2021 on 17.12.2021

22. Administrative Penalties, Measures and Investigatory Powers (Amendment) Regulations, 2021
    - Published as LN 491 of 2021 on 24.12.2021

23. European Passport Rights for Credit Institutions (Amendment) Regulations, 2021
    - Published as LN 492 of 2021 on 24.12.2021

24. Banking Act (Supervisory Review) (Amendment) Regulations, 2021
    - Published as LN 493 of 2021 on 24.12.2021

25. Supervisory Consolidation (Credit Institutions) Regulations, 2021
    - Published as LN 494 of 2021 on 24.12.2021

26. Investment Services Act (Supervisory Consolidation) (Capital Requirements Directive) Regulations, 2021
    - Published as LN 495 of 2021 on 24.12.2021

27. Malta Financial Services Authority Act (European Crowdfunding Service Providers for Business) Regulations, 2021
    - Published as LN 496 of 2021 on 24.12.2021

APPENDIX 2

RULES ISSUED OR AMENDED IN 2021

BANKING

BANKING RULE BR/13 – AMENDED

An amended version was issued on 1 March 2021, aimed at updating outdated references while also clarifying other specific provisions of the Rule. Revisions were primarily implemented in the Rule's section on proportionality through the introduction of paragraph 18A. Changes were also made with respect to the provisions on the Authority's opposition to proposed acquisitions, and further clarification on the procedure of assessment of proposed acquisitions is provided. In this context, paragraph 32A was introduced.

Furthermore, Appendix 1 was amended to, inter alia, repeal sections therein which are catered for in the RTSs developed by the EBA pursuant to Article 8(2) of the Capital Requirements Directive (CRD).

INSURANCE AND PENSIONS

CHAPTER 4 OF PART A OF THE INSURANCE DISTRIBUTION RULES AND THE FIRST SCHEDULE TO CHAPTER 10 OF THE INSURANCE DISTRIBUTION RULES – AMENDED

The main amendment effected to Chapter 4 focused on the concept of credit risk transfer, where an insurance undertaking may enter into an agreement with an insurance intermediary. In such a circumstance, the said undertaking assumes all the credit risk emanating from premia payment, in line with Article 10(6)(a) of Directive (EU) 2016/97. Chapter 4 was also amended to stipulate new own funds requirements on an enrolled company which is enrolled in the Managers or Brokers List. The MFSA also amended the First Schedule to Chapter 10 of the Insurance Distribution Rules on information to be provided to the competent authority for Supervisory Purposes, which contains the Business of Insurance Intermediaries Statements which insurance intermediaries are required to compile.

CHAPTERS 1 AND 5 OF THE INSURANCE RULES, INSURANCE BUSINESS (SUPERVISION OF INSURANCE AND REINSURANCE UNDERTAKINGS IN A GROUP) REGULATIONS, AND EUROPEAN PASSPORT RIGHTS FOR INSURANCE AND REINSURANCE UNDERTAKINGS REGULATIONS, 2015 – AMENDED

For the purpose of transposition of Directive 2019/2177, the MFSA amended the European Passport Rights for Insurance and Reinsurance Undertakings Regulations, 2015, by introducing two new parts. The MFSA also amended Chapter 1 of the Insurance Rules by introducing a new section 1.8 entitled 'Notification and Collaboration Platforms'. This amendment partially transposes the new Articles 152a and 152b to the Solvency II Directive introduced by Directive 2019/2177. Chapter 5 of the Insurance Rules was also amended by introducing a new paragraph 5.5.59. In light of this amendment, the MFSA will be required to inform EIOPA of any applications which the Authority receives to use or change an internal model. The MFSA also amended the Insurance Business (Supervision of Insurance and Reinsurance Undertakings in a Group) Regulations with the aim of introducing a number of new requirements.

PENSION RULES FOR PERSONAL RETIREMENT SCHEMES – AMENDED

The MFSA amended the Pension Rules for Personal Retirement Schemes by removing the footnote to Standard Licence Condition 9.9(b)(ii) of the Pension Rules for Personal Retirement Schemes in view of the fact that the custodian does not provide investment advice.

PENSION RULES FOR OCCUPATIONAL RETIREMENT SCHEMES – AMENDED

In order to ensure the complete transposition of Directive (EU) 2016/2341, the MFSA amended Standard Licence Condition 6.1.2(e) of the Pension Rules for Occupational Retirement Schemes so that the information in the Pension Benefit Statement would be available in the Maltese OR English language, thus eliminating the obligation to have this information provided in both the Maltese and English language. The MFSA also amended Standard Licence Condition 3.1.1 of the Pension Rules for Occupational Retirement Schemes to clarify that the Pension Rules are without prejudice to the role of social partners.

RETIREMENT PENSIONS (CROSS-BORDER ACTIVITIES AND CROSS-BORDER TRANSFERS) REGULATIONS, 2020 – AMENDED

The Retirement Pensions (Cross-Border Activities and Cross-Border Transfers) Regulations 2020 were amended to provide the MFSA with the power to prohibit the free disposal of the assets of a custodian located in Malta, at the request of a European Regulatory Authority.

PENSION RULES FOR OCCUPATIONAL RETIREMENT SCHEMES, PENSION RULES FOR SERVICE PROVIDERS AND PENSION RULES FOR RETIREMENT FUNDS – AMENDED

The MFSA amended the Pension Rules for Occupational Retirement Schemes, the Pension Rules for Service Providers, and the Pension Rules for Retirement Funds to remove the obligations of a back-office administrator and any reference to the said back-office administrator from the Pension Rules.

RETIREMENT PENSION (TRANSITIONAL PROVISIONS ON BACK-OFFICE ADMINISTRATORS) (REVOCATION) REGULATIONS – NEW

The MFSA issued the Retirement Pensions (Transitional Provisions on Back-Office Administrators) (Revocation) Regulations. The aim behind such Regulations is to revoke the Retirement Pensions (Transitional Provisions on Back-Office Administrators) Regulations, which were no longer necessary because the 12-month transitional period to surrender the certificate of recognition to the MFSA had elapsed. Furthermore, all back-office administrators have surrendered their recognition certificate.

SECURITIES AND MARKETS

Authorisation

Following the removal of the categories applicable to Investment Services Licence Holders and to transpose the Investment Firms Directive (IFD), Sections 4, 7 and 10 of Part A of the Investment Services Rules for Investment Services Providers were amended as explained in this Circular.

Capital Markets

CAPITAL MARKETS RULES – AMENDED

POSTPONEMENT OF THE ESEF REQUIREMENTS BY ONE YEAR

Amendments endorsed by EU ambassadors on 16 December 2020 to the Transparency Directive allow Member States to delay by one year the application of the ESEF requirements for listed companies' annual financial reports.

Further to the subsequent formal endorsement of the amendments by the European Parliament and the Council of the European Union, Regulation (EU) 2021/3372, including an amendment to the Transparency Directive relating to the 1-year delay of the ESEF requirements, was published in the Official Journal of the European Union on 26 February 2021.

In this respect, the MFSA carried out two amendments to the Capital Markets Rules (CMR).

CMR 5.56A was amended to specify that listed entities, subject to the requirements of Chapter 5 of the Capital Markets Rules, shall prepare annual financial reports in ESEF for financial statements for financial years beginning on or after 1 January 2021.

CMR 8.114.6 was amended to specify that close-ended collective investment schemes, subject to the requirements of Chapter 8 of the Capital Markets Rules, shall prepare annual financial reports in ESEF for financial statements for financial years beginning on or after 1 January 2021.

AMENDMENTS TO THE CAPITAL MARKETS RULES AS A RESULT OF THE AMENDMENTS TO THE FINANCIAL MARKETS ACT (ACT XLVI OF 2021)

As a result of the amendments to the Financial Markets Act, the Listing Rules for Main Market and the Wholesale Securities Markets and the Listing Authority Policies were amended, with effect from 13 August 2021, to:

a. align certain definitions with those included in the Financial Markets Act;
b. substitute references to "Listing Authority" and "Listing Committee" with "MFSA";
c. delete Listing Rules regarding the functions and the composition of the Listing Committee;
d. substituted references to "Listing Rules" with "Capital Markets Rules".

SHAREHOLDER RIGHTS DIRECTIVE II AND CENTRAL COUNTERPARTIES REGULATION – AMENDED

On 6 December 2021, amendments relating to SRDII were reflected in the Capital Markets Rules.

Moreover, the CCPR amends several Directives, whereby Articles 90 and 91 of the Regulation amend the Takeover Bids Directive and SRD II respectively. Consequently, the Capital Markets Rules were impacted. The respective amendments address the necessary changes required in view of the CCPR.

In view of this, Chapter 5, Chapter 11 and Chapter 12 were amended. Six rules were amended, namely CMR 5.143A, CMR 11.2A, CMR 12.2, CMR 12.2A, CMR 12.4A and CMR 12.26. Two new ones were also introduced: CMRs 12.26O; and 12.26P.

Collective Investment Schemes & Fund Managers – AIFs

ESMA GUIDELINES ON OUTSOURCING TO CLOUD SERVICE PROVIDERS – NEW

With the passing of time various technologies are developed and subsequently used by the industry, among which is the use of cloud services providers and the outsourcing thereof. Cloud service providers bring various benefits, however, they also bring challenges and risks, which need to be managed and mitigated.

With this in mind, ESMA published Guidelines to help firms identify, address and monitor the risks that might arise out of cloud outsourcing arrangements and support a level playing field across the European Union.

The Guidelines apply also to AIFs. They have been integrated through SLC 8.24 of the investment services rules for Alternative Investment Funds Part B: Standard licence conditions applicable to Alternative Investment Funds as further detailed in this Circular.

ESMA GUIDELINES ON STRESS TEST SCENARIOS UNDER THE MMF REGULATION – AMENDED

The MFSA updated SLC 25.3 of Part BII of the Investment Services Rules for Retail CISs and SLC 8.44 Investment Services Rules applicable to Alternative Investor Funds to cross-refer to the revised ESMA Guidelines on stress test scenarios under the MMF Regulation, published by ESMA on 29 June 2021. MMFs or managers of MMFs should comply with the ESMA Guidelines on stress test scenarios under the MMF Regulation when carrying out stress testing in accordance with Article 28 of the MMF Regulation. The relevant circular was published on 23 August 2021.

ESMA GUIDELINES ON ARTICLE 25 OF DIRECTIVE 2011/61/EU – NEW

SLC 8.90 of Part BIII was revised and updated by way of a cross-reference to the ESMA Guidelines, as outlined in this Circular.

SLC 8.95 was added to the same Rulebook to cater for cases when an AIFM managing leveraged AIFs does not comply with any measure(s) or restriction(s) imposed by the MFSA in accordance with Article 25(3) of the AIFMD. This enables the MFSA to take additional steps against AIFMs managing leveraged AIFs to further safeguard the stability and integrity of the financial system or to avoid the disorder of financial markets.

ESMA GUIDELINES ON PERFORMANCE FEES IN INVESTMENT FUNDS – NEW

The AIF Rules were amended by introducing a new section 9 under the heading Supplementary Licence Conditions in relation to Performance Fees Applicable to AIFs which are Sold Exclusively to Retail Investors, incorporating the main provisions of Guidelines 1 to 4 into the AIF Rules.

Respectively, Appendix 4 to Part B of the AIF Rules has also been amended to introduce a new section 7 under the heading "Additional Disclosures to investors of the AIFs which are sold exclusively to retail investors" to align the disclosures requirements of the AIFs with the provisions of Guideline 5.

Further details can be found in this Circular.

FITNESS AND PROPERNESS ASSESSMENT OF COMMITTEE MEMBERS INVOLVED WITH INVESTMENT SERVICES LICENCE-HOLDERS AND COLLECTIVE INVESTMENT SCHEMES – AMENDED

In terms of the Circular issued by the Authority on 3 July 2020, individuals being appointed as committee members and/or valuation officers in relation to licence-holders and collective investment schemes are no longer required to submit a Personal Questionnaire form, with the exception of certain committee members.

To this effect, Part B of the AIF Rulebook was amended to fully reflect and incorporate this MFSA policy position, further to the changes already announced and thoroughly detailed in the abovementioned Circular. Further details can be found in this Circular.

INTRODUCTION OF THE ANNUAL FUND RETURN – AMENDED

As part of its ongoing work and efforts to improve risk-based supervision and facilitate extraction of financial data, various sections within Rulebooks relating to all collective investment schemes (locally licensed or notified) have been updated to introduce the requirement for all collective investment schemes to submit a fund return. The Authority had issued this Circular on this matter.

SLC 5.06 was amended to reflect the change to the new Annual Fund Return.

Collective Investment Schemes & Fund Managers – AIF Management Companies

ESMA GUIDELINES ON OUTSOURCING TO CLOUD SERVICE PROVIDERS – NEW

The Guidelines apply also to AIF management companies. These have been integrated through SLC 4.10 of Part BIII: Standard Licence Conditions Applicable to Investment Services Licence-Holders Which Qualify as Alternative Investment Fund Managers (Part BIII) as further detailed in this Circular.

ESMA GUIDELINES ON STRESS TEST SCENARIOS UNDER THE MMF REGULATION – AMENDED

The Guidelines apply also to AIF Management Companies. The updated hyperlink is found in SLC 13.02 of Part BIII.

ESMA GUIDELINES ON ARTICLE 25 OF DIRECTIVE 2011/61/EU – NEW

SLC 8.01 of Part BIII was revised and updated by way of a cross-reference to the ESMA Guidelines, as outlined in this Circular.

SLC 8.06 was added to the same Rulebook to cater for cases when an AIFM managing leveraged AIFs does not comply with any measure(s) or restriction(s) imposed by the MFSA in accordance with Article 25(3) of the AIFMD. This enables the MFSA to take additional steps against AIFMs managing leveraged AIFs to further safeguard the stability and integrity of the financial system or to avoid the disorder of financial markets.

ESMA GUIDELINES ON MARKETING COMMUNICATIONS – AMENDED

SLC 3.14 of Part BIII was updated to properly reference the Guidelines.

ESMA GUIDELINES ON PERFORMANCE FEES IN INVESTMENT FUNDS – NEW

Section 10 of Part BIII was amended by inserting a new SLC 10.19 to introduce the new requirements. Further details can be found in this Circular.

CBM REPORTING & APPENDIX 2B – AMENDED

Data pertaining to the CBM under the CBM Reporting Schedules – which was previously collected in relation to Fund Managers through a specific section within the MFSA's Appendix 2B Financial Return (Appendix 2B) – is now collected through a separate return as of 20 October 2021.

Collective Investment Schemes & Fund Managers – Professional Investor Funds

INTRODUCTION OF THE ANNUAL FUND RETURN – NEW

SLCs 1.88, 1.62, and 1.64 of Part BI, BII and BIII of the Investment Services Rules for Professional Investor Funds have been amended respectively to introduce the Annual Fund Return.

Collective Investment Schemes & Fund Managers – UCITS Management Companies

ESMA GUIDELINES ON OUTSOURCING TO CLOUD SERVICE PROVIDERS – NEW

The Guidelines apply also to UCITS management companies. They have been integrated through Part BII: Standard Licence Conditions applicable to Investment Services Licence-Holders which qualify as UCITS management companies (Part BII) as further detailed in this Circular.

ESMA GUIDELINES ON STRESS TEST SCENARIOS UNDER THE MMF REGULATION – AMENDED

The Guidelines apply also to UCITS management companies. The updated hyperlink is found in SLC 7.04 of Part BII.

Custodians

ESMA GUIDELINES ON OUTSOURCING TO CLOUD SERVICE PROVIDERS – NEW

The Guidelines apply also to Custodians. They have been integrated through SLC 1.18 Investment Services Rules for Investment Services Providers Part BIV: Standard Licence Conditions Applicable To Investment Services Licence-Holders Which Qualify As Custodians as further detailed in this Circular.

Investment Firms

RULEBOOK – AMENDED

The MFSA issued a revised "Part BI: Rules applicable to Investment Services Licence-Holders which qualify as MiFID Firms" (the Rulebook) on 5 August 2021.

The Rulebook is now split into three parts. The MFSA carried out significant changes to ensure proper transposition and implementation of the Investment Firm Regulation and Directive, along with various other Regulations and Directives, including the Taxonomy Regulation, the Sustainable Finance Disclosure Regulation, the Capital Requirements Directive (CRD), the Capital Requirements Regulation II (CRR II), the Markets in Financial Instruments Regulation, and the Markets in Financial Instruments Directive II (MiFID II).

Following developments in the European regulatory framework, and considering that the Introducers regime is homegrown, the MFSA decided to remove the section relating to Introducers in the new Rulebook. More details are available in this Circular.

INVESTMENT FIRMS DIRECTIVE TRANSPOSITION – NEW

The three parts apply to all classes: Class 1 and Class 1 Minus, Class 2, and Class 3 respectively.

- Part 1 contains two types of provisions: those which are homegrown and those which partially transpose the MiFID II and the IFD.
- Part 2 automatically applies to the largest investment firms, Class 1, which are subject to the CRR and the CRD. Class 1 Minus firms may also be subjected to this area of the Rulebook.
- Part 3 implements the Investment Firms Regulation (IFR) and partially transposes the IFD, which governs and regulates Class 2 and 3 firms. This Part applies to all Class 1 Minus firms on a case-by-case basis.

Further details can be found in this Circular.

CRD V TRANSPOSITION – NEW

The CRD V amends 14 CRD IV Articles which were transposed in the Rulebook and introduces three new ones which relate to Articles previously transposed in the Rulebook. The table in this Circular lists the Rule being amended or introduced, the subject of the Rule, and outlines the main changes.

ESMA GUIDELINES ON OUTSOURCING TO CLOUD SERVICE PROVIDERS – NEW

The Guidelines apply also to Investment Firms. They have been integrated through Part BI: Rules applicable to investment services licence-holders which qualify as MiFID firms (Part BI) as further detailed in this Circular.

Malta-based Retail UCITS Collective Investment Schemes

ESMA GUIDELINES ON STRESS TEST SCENARIOS UNDER THE MMF REGULATION – AMENDED

The Guidelines apply also to Malta-based Retail UCITS Collective Investment Schemes. The updated hyperlink is found in Part BII of the Standard Licence Conditions Standard applicable to Malta-based Retail UCITS Collective Investment Schemes

ESMA'S GUIDANCE ON PERFORMANCE FEES IN INVESTMENT FUNDS – NEW

The UCITS Rules have been amended by introducing a new sub-section 6.3 under the heading "Disclosures to Investors" relating to the performance fees model adopted by the manager and a new section incorporating the main provisions of the Guidelines.

Respectively, the Appendix I – Contents of the Prospectus to the UCITS Rules, and particularly sections 1.18 and 2.19 of Annex I and section 1.18 of Annex II have also been amended to align the disclosures requirements with the provisions of new sections 6.3 and 27 of the UCITS Rules.

Further details can be found in this Circular.

INTRODUCTION OF THE ANNUAL FUND RETURN – NEW

SLC 12.8 of Part BII has been amended to introduce the Annual Fund Return.

Notified AIFs

RULEBOOK – NEW

On 24 June 2021, the MFSA published this Circular detailing the publication of the new Notified AIFs (NAIFs) Rulebook.

The dedicated MFSA NAIF Rulebook addresses a regulatory gap that existed in relation to the applicability of the Rules (previously included in Part BIII of the Investment Services Rules for Investment Services Providers) for overseas AIFMs managing local NAIFs, in terms of Article 33 of the AIFM Directive.

Self-Managed Schemes

ESMA GUIDELINES ON OUTSOURCING TO CLOUD SERVICE PROVIDERS – NEW

The Guidelines apply also to self-managed schemes. They have been integrated through the Investment Services Rules for Retail Collective Investment Schemes Part B: Standard Licence Conditions Appendix VIII Supplementary Licence Conditions Applicable to Self-Managed Schemes.

CONDUCT SUPERVISION

Conduct of Business Rulebook (the "Rulebook") – amended

CHAPTER 1 – AMENDED
AMENDMENTS APPLICABLE TO INSURANCE BROKERS

On 20 July 2021, new requirements on insurance brokers entering into a credit risk transfer agreement were introduced in Chapter 1 of the Rulebook. Reference may also be made to the feedback statement to the MFSA Consultation Document of 23 April 2020 relating to amendments to Chapter 4 of Part A of the Insurance Distribution Rules.

AMENDMENTS TO INCLUDE RELEVANT MARKETING REQUIREMENTS EMANATING FROM THE CROSS-BORDER DISTRIBUTION OF FUNDS REGULATION

On 2 September 2021, Chapter 1 of the Rulebook was amended in order to incorporate provisions of Article 4 (Requirements for marketing communications) of the Cross-border Distribution of Funds Regulation (Regulation (EU) 2019/1156); as well as to implement the relevant provisions of the ESMA Guidelines on marketing communications under the Regulation on cross-border distribution of funds (applicable as from 2 February 2022).

CHAPTER 4 – AMENDED – TRANSPOSITION ART 44A OF DIRECTIVE (EU) 2014/59/EU, AS INTRODUCED BY THE BRRD2

On 20 January 2021, amendments to transpose relevant provisions of Directive (EU) 2019/879 (BRRD2) were inserted. MiFID firms offering subordinated eligible liabilities, issued on or after 28 December 2020 to retail clients, are to comply with the new requirements set out in Chapter 4, Section 1 Part E of the Rulebook. Primarily, in terms of the said requirements, sellers of subordinated eligible liabilities shall always carry out a suitability test – irrespective of the type of investment service – before carrying out a transaction in this instrument; and the seller can proceed with the transaction only if it is deemed that such instrument is suitable for the retail client.

On 20 July 2021, further amendments were carried out to the requirements laid down in Chapter 4, Section 1 Part E of the Rulebook, primarily to clarify the scope and applicability of relevant provisions (amended definition of "Eligible Liabilities" and inserted a new definition of "Bail-inable Liabilities") and also to clarify further the instances where the sale of liabilities referred to in R.4.1.47 to retail client is not to proceed.

AMENDMENTS TO INCLUDE UPDATED ESMA GUIDELINES ON CERTAIN ASPECTS OF MiFID COMPLIANCE FUNCTION REQUIREMENTS

The ESMA Guidelines on certain aspects of MiFID II Compliance Function Requirements were adopted on 5 June 2020 and replaced the ESMA Guidelines on the same subject matter issued in 2012. On 20 July 2021, the necessary amendments were carried out to the Rulebook in order to reflect some of the relevant provisions of the said Guidelines.

AMENDMENTS TO TRANSPOSE RELEVANT PROVISIONS OF THE MiFID QUICK-FIX DIRECTIVE AND INCLUDE REQUIREMENTS ON CONDUCT-RELATED DATA REPORTING

On 16 November 2021, various parts of the Rulebook were amended in order to transpose relevant provisions of Article 1 of Directive (EU) 2021/338 which amends Directive 2014/65/EU (MIFID II) as regards information requirements, product governance and position limits, and is often referred to as "MIFID II Quick-Fix". This legislative measure amending MiFID II forms part of a set of measures to facilitate the economic recovery post COVID-19 pandemic. The said amendments apply as from 28 February 2022.

In addition, on 16 November 2021, specific requirements were also inserted in the Rulebook to expressly reflect the submissions of conduct-related data reporting to the MFSA with which investment firms (new Rule R.4.1.25) and insurance undertakings (new Rule R.4.1.26), respectively, have been complying, based on relevant MFSA Circulars which had been issued in this respect.

COMPANY SERVICE PROVIDERS RULEBOOK – AMENDED

In 2021, the CSP Rulebook was amended following a consultation document published in December 2020 and a feedback statement setting out the Authority's position on various aspects of the new regulatory framework. The changes to the CSP Rulebook were introduced to reflect the reforms to the regulatory framework for CSPs introduced by Act L of 2020 and also to take into account the supervisory experience gained by the MFSA since the enactment of the CSP Act in 2013.

The amendments include the introduction of definitions of the applicable thresholds to be designated as an under-threshold CSP, the introduction of the risk management function, changes to working capital and insurance requirements which are now based on a CSP's class and designation, and the overall strengthening of the regulatory framework applicable to CSPs, particularly in relation to governance requirements.

VIRTUAL FINANCIAL ASSETS

VFA RULEBOOK: CHAPTER 3 – AMENDED

On 1 July 2021, the MFSA published the VFASP Return, a supervisory tool which the Authority has since been using to strengthen its supervisory work being carried out on VFA Service Providers. In order to support the issuance of the VFASP Return, a revised version of Chapter 3 of the Virtual Financial Assets Rulebook was published.

Furthermore, the Virtual Financial Assets 'frequently asked questions' were updated to reflect these changes and a Guidance Note was published to assist licence-holders in the compilation of the above-mentioned return.

APPENDIX 3

LICENSING IN NUMBERS

BANKING

Table 1: Credit and Financial Institutions

	Total licences at end 2019	Total licences at end 2020	Total licences at end 2021
Credit Institutions	25	24	22
Financial Institutions	52	49	52
Of which:			
Authorised to provide payment services	*41*	*39*	*41*
Authorised to issue electronic money	*15*	*17*	*24*

INSURANCE

Table 2: Insurance Undertakings

	Total licences at end 2019	Total licences at end 2020	Total licences at end 2021
Non-Life	55	54	55
Life	8	8	10
Composite	2	2	2
Reinsurance	5	4	4
TOTAL	**70**	**68**	**71**
Of which:			
Affiliated	*7*	*7*	*7*
Protected Cell Companies (and cells)	*15 (60 cells)*	*16 (63 cells)*	*17 (73 cells)*
Insurers of Domestic origin	*8*	*8*	*10*

Table 3: Insurance Intermediaries: Companies

	Total licences at end 2019	Total licences at end 2020	Total licences at end 2021
Enrolled Insurance Managers	11	11	10
Of which PCCs (and cells)	3 (2 cells)	3 (2 cells)	2 (0 cells)
Enrolled Insurance Agents	19	20	20
Enrolled Insurance Brokers	33	35	36
Of which PCCs (and cells)	4 (10 cells)	5 (12 cells)	6 (13 cells)

Table 4: Insurance Intermediaries: Individuals			
	Total licences at end 2019	Total licences at end 2020	Total licences at end 2021
Registered Insurance Managers	26	27	24
Registered Insurance Agents	31	35	27
Registered Insurance Brokers	115	148	125
Tied Insurance Intermediaries[1]	409	390	369
Ancillary Insurance Intermediaries[2]	-	1	1

PENSIONS

Table 5: Authorisations and registrations in terms of Retirement Pensions Act			
	Total registrations at end 2019	Total registrations at end 2020	Total registrations at end 2021
Retirement Schemes	54	55	52
Retirement Funds	3	3	2
Retirement Scheme Administrators	17	17	15
Investment Managers (Registered)	6	7	7
Investment Managers (Exempted)	6	6	6
Custodian (Registered)	3	3	4
Custodian (Exempted)	2	2	2

SECURITIES

Table 6: Investment Services			
	Total licences at end 2019	Total licences at end 2020	Total licences at end 2021
Investment Services[3]	153	147	148

Table 7: Recognised Fund Administrators						
	2020			**2021**		
	New recognitions	Surrendered recognitions	Total recognitions at end 2020	New recognitions	Surrendered recognitions	Total recognitions at end 2021
Recognised Fund Administrators	1	0	**21**	0	3	**18**

1 Includes both individuals and companies.

2 Includes both individuals and companies.

3 Includes investment firms, UCITS managers, AIF managers, De Minimis AIF managers, Depositories and Depositories Lite.

Table 8: Collective Investment Schemes

	2020			2021		
	New licences	Surrendered licences	Total licences at end 2020	New licences	Surrendered licences	Total licences at end 2021[4]
AIFs	5	26	**110**	16	15	**115**[5,6,7]
Of which ICs	*0*	*3*	*8*	*0*	*0*	*8*
PIFs	19	79	**296**	16	42	**261**[5,7]
Of which ICs	*1*	*4*	*12*	*1*	*2*	*10*[8]
Retail Non-UCITS	0	0	**5**	0	0	**5**
Recognised Private Schemes	1	3	**5**	1	1	**5**
UCITS	7	5	**109**	10	7	**117**[6]
Of which ICs	*0*	*0*	*1*	*0*	*0*	*1*
Total	**32**	**113**	**525**	**43**	**65**	**503**

Table 9: Notified Alternative Investment Funds

	2020			2021		
	New notifications	Surrendered notifications	Total notifications at end 2020	New notifications	Surrendered notifications	Total notifications at end 2021
NAIFs	17	6	**65**	42	10	**97**
Of which ICs	*0*	*0*	*0*	*1*	*0*	*1*

Table 10: Recognised Incorporated Cell Companies

	2020			2021		
	New licences	Surrendered licences	Total licences at end 2020	New licences	Surrendered licences	Total licences at end 2021
Recognised Incorporated Cell Companies	0	0	**4**	0	0	**4**
Incorporated Cells	1	7	**21**	2	2	**20**[8]

4 Figures may not sum up due to conversion of licences.

5 11 PIF sub-funds had their licence revised to AIF sub-funds.

6 5 AIF sub-funds had their licence revised to UCITS sub-funds.

7 2 AIF sub-funds had their licence revised to PIF sub-funds.

8 One PIF IC is no longer classified as an IC.

TRUSTS SERVICES

Table 11: Authorised Trustees, Nominees and Trusts	Total authorisations at end 2019	Total authorisations at end 2020	Total authorisations at end 2021
Authorisations in terms of the Trusts and Trustees Act (Trustees/ Fiduciary Service Providers/ Administrators of Private Foundations)	174	166	162
Nominees[9]	10	10	8
Trusts registered in terms of the Trust Act, 1988[9]	61	61	61

COMPANY SERVICE PROVIDERS

Table 12: Company Service Providers	Total registrations at end 2019	Total registrations at end 2020	Total registrations at end 2021[10]
Class A CSP			10
Class B CSP			29
Class C CSP	181	171	118
Under Threshold Class A CSP			4
Under Threshold Class B CSP			55
Total	**181**	**171**	**216**

SECURITISATION VEHICLES

Table 13: Notifications in terms of the Securitisation Act	Active SVs as of 2019	Active SVs as of 2020	Active SVs as of 2021
Notified Securitisation Vehicles	39	36	39
Of which notified Securitisation Cell Companies ('SCCs')	*23*	*22*	*24*

VIRTUAL FINANCIAL ASSETS

Table 14: Virtual Financial Assets Agents	Total registrations at end 2019	Total registrations at end 2020	Total registrations at end 2021
Virtual Financial Assets Agents	18	19	13

9 The coming into force of the Trusts & Trustees Act in 2005 brought the issuing of licences for trusts and nominee services to an end. Accordingly, these licences continued to be phased out.

Table 15: Virtual Financial Assets Service Providers

	Total registrations at end 2020	Total registrations at end 2021
Virtual Financial Assets Service Providers	1	14

APPENDIX 4

MEMORANDA OF UNDERSTANDING (MOU) IN FORCE

BILATERAL MOUs WITH FOREIGN REGULATORS

Entity	Scope of Agreement
Australian Prudential Regulation Authority	Banking and insurance
Austrian Financial Market Authority	Credit institutions
Belgian Banking and Finance Insurance Commission	Banking
Bermuda Monetary Authority	Insurance, credit institutions and trusts
Cayman Islands Monetary Authority	Credit institutions, insurance, securities and trusts
China Banking Regulatory Commission	Banking
China Securities Regulatory Commission	Securities
Cyprus Central Bank	Credit institutions
German Federal Financial Supervisory Authority	Banking, securities and insurance (primarily banking)
Gibraltar Financial Services Commission	Banking, securities and insurance
Guernsey Financial Services Commission	Banking, investment services, insurance and fiduciary services
Isle of Man Financial Services Commission	Securities and banking
Isle of Man Insurance and Pensions Authority	Mutual assistance and exchange of information
Jersey Financial Services Commission	Mutual assistance and exchange of information
Mauritius Financial Services Commission	Securities, insurance and pensions
Netherlands Central Bank	Banking
Portugal Central Bank	Credit institutions
Portugal Securities Market Commission	Securities
Qatar Financial Centre Regulatory Authority	Banking, financial and insurance related business
Slovakia National Bank	Banking, insurance and securities
South Africa Financial Services Board	Securities, insurance and pension funds
Turkey Banking Regulation and Supervision Agency	Banking
Turkey Capital Markets Board	Securities
UAE Abu Dhabi Global Market Financial Services Regulatory Authority	Banking, securities and insurance
UAE Dubai Financial Services Authority	Securities, credit institutions, insurance and trusts insurance
USA Nebraska Department of Insurance	Insurance
UK Financial Conduct Authority	Banking, insurance and investment services
UK Financial Conduct Authority	Securities
Ukraine National Securities and Stock Markets Commission	Securities and markets
Vatican Financial Information Authority	Financial institutions
Vietnam National Financial Supervisory Commission	Banking, securities and insurance

BILATERAL MOUs WITH LOCAL AUTHORITIES

Entity	Scope of Agreement
Accountancy Board	Framework for cooperation, mutual assistance, and exchange of information between the two entities
Central Bank of Malta	Payment and securities settlements systems; Exchange of information in the fields of financial services; Joint financial stability board, Financial market infrastructures
Commissioner for Voluntary Organisation	Framework for cooperation, mutual assistance and exchange of information between the two entities, for the purpose of assisting each other in the discharge of their own respective functions
	Rendering of mutual assistance and exchange of information in the field of AML/CFT compliance supervision
Financial Intelligence Analysis Unit (FIAU)	Cooperation and exchange of information; and the allocation of responsibilities in ensuring compliance by subject persons with their obligations under the Prevention of Money Laundering Act (PMLA) and National Interest Act (NIA)
Malta Business Registry (MBR)	Framework for cooperation, mutual assistance and exchange of information between the two entities
Office of Fair Competition	Mutual assistance and exchange of information
Malta Police Force	To provide a framework for the parties to cooperate and communicate constructively for the purpose of assisting each other in the discharge of their own respective functions

MULTILATERAL MOUs AND PROTOCOLS

Entity	Scope of Agreement
European Insurance and Occupational Pensions Authority (EIOPA)	Insurance and occupational pensions
European Securities and Markets Authority (ESMA)	Securities
Financial Supervisory Authorities, Central Banks and Finance Ministries of the EU	Cross-Border Financial Stability
International Organization of Securities Commissions (IOSCO)	Securities, Administrative arrangement for the transfer of personal data with non-EEA Authorities
Ministry for Finance and Employment and Central Bank of Malta	Co-operation in the management of financial crisis situations
The Institute of Directors (IoD UK) and the Institute of Directors Malta Branch (IoD Malta)	Setting up of a joint initiative between IoD Malta and the MFSA for the scope of improving board education and standards
International Association of Insurance Supervisors (IAIS)	Exchange of information in insurance regulatory and supervisory matters
Malta Gaming Authority, Sanctions Monitoring Board, FIAU	Formalise cooperation and exchange of information, and the allocation of responsibilities in ensuring compliance by subject persons with their relevant obligations under the PMLA and NIA

AGREEMENTS BY MEANS OF LETTERS WITH FOREIGN REGULATORS

Entity	Scope of Agreement
Commissione Nazionale per le Società e la Borsa (CONSOB)	Securities
Swiss Financial Market Supervisory Authority (FINMA)	Banking and securities

APPENDIX 5

LITIGATION IN CONNECTION WITH THE MFSA'S EXERCISE OF ITS REGULATORY AND SUPERVISORY FUNCTIONS

PENDING APPEALS BEFORE THE FINANCIAL SERVICES TRIBUNAL AS AT DECEMBER 2021

1. Nicholas Portelli v MFSA (Case Ref: FST 04/09)
2. European Insurance Group Ltd v MFSA (Case Ref: FST 01/10)
3. Novium AG v MFSA (Case Ref: FST 02/15)
4. FX-CAM Consulting and Advertisement Ltd (formerly Sensus Capital Markets Ltd) v MFSA (Case Ref: FST 02/16)
5. Heikki Niemela, Mika Lehto, Nemea plc, Nevestor SA, Nemea Bank plc v MFSA (Case Ref: FST 04/16)
6. Heikki Niemela, Mika Lehto, Nemea plc, Nevestor SA, Nemea Bank plc v MFSA (Case Ref: FST 10/16)
7. Niemela, Lehto, Nemea plc, Nevestor SA, Nemea Bank plc v MFSA (Case Ref: FST 01/17)
8. Victoria Insurance Agency Ltd v MFSA (Case Ref: FST 02/17)
9. Pilatus Holding Ltd v MFSA (Case Ref: FST 02/18)
10. Johannes Helmut, Michael Bauer, Claude-Anne Sant Fournier, Hamidreza Ghanbari, Robert L. Klingensmith, Luis Felipe Rivera and Mustafa Cetinel in their personal capacities as directors of Pilatus Bank plc and for and on behalf of Pilatus Bank plc v MFSA (Case Ref: FST 03/18)
11. Portmann Capital Management Ltd v MFSA (Case Ref: FST 04/18)
12. Portmann Capital Management Ltd v MFSA (Case Ref: FST 05/18)
13. Signia Holding Ltd & Satabank plc v MFSA (Case Ref: FST 06/18)
14. Novium AG v MFSA (Case Ref: FST 01/19)
15. E&S Consultancy Ltd v MFSA (Case Ref: FST 03/19)
16. E&S Consultancy Ltd v MFSA (Case Ref: FST 06/19)
17. Karl Schranz v MFSA (Case Ref: FST 01/20)
18. Christian Ellul v MFSA (Case Ref: FST 02/20)
19. Signia Holding Ltd & Satabank plc v MFSA (Case Ref: FST 03/20)
20. Corporate & Commercial FX Services Ltd v MFSA (Case Ref: FST 04/20)
21. Dennis Muscat v MFSA (Case Ref: FST 05/20)
22. Signia Holding Ltd & Satabank plc v MFSA (Case Ref: FST 08/20)
23. Clayton Formosa practising trade under the name 'Odin Professional Services' v MFSA (Case Ref: FST 09/20)
24. Phoenix Payments Ltd v MFSA (Case Ref: FST 01/21)
25. MC Trustees v MFSA (Case Ref: FST 02/21)
26. Investar plc v MFSA (Case Ref: FST 03/21)
27. Integrated-Capabilities (Malta) Ltd v MFSA (Case Ref: FST 04/21)
28. Iosif Galea v MFSA (Case Ref: FST 05/21)
29. Francesco Trimboli v MFSA (Case Ref: 06/21)
30. S&D Yachts Ltd. v MFSA (Case Ref: 07/21)

PENDING COURT CASES AS AT 31 DECEMBER 2021

Court of Appeal (Civil, Superior)

31. Amadeo Barletta noe v MFSA (276/2012/1)

Court of Appeal (Civil, Inferior)

32. Portmann Capital Management Ltd v FIAU & MFSA (95/18 LM)
33. St Publius Corporate Services Ltd v MFSA (70/2021 LM)

Civil Court, First Hall (Constitutional Jurisdiction)

34. Carmel Cortis et v Prim Ministru et (21/2019 TA)
35. Phoenix Payments Ltd vs MFSA et (272/2021 TA)

Civil Court (First Hall)

36. Pilatus Holding Ltd et v MFSA (936/2018 RGM)
37. E&S Consultancy Ltd v MFSA (759/2019 AF)
38. Dennis Muscat v MFSA (237/2021 RGM)
39. MMC Consultancy Ltd v MFSA (540/2021 CFS)

Civil Court (Commercial Section)

40. Maltese Cross Financial Services Ltd v X (204/2015 ISP)
41. Mark Refalo noe v Brian Tonna Pro Et Noe (827/2017 ISP)

APPENDIX 6

OTHER INFORMATION