MFSA
MALTA FINANCIAL SERVICES AUTHORITY

Strategic Plan

2019-2021

STRENGTHENING THE MFSA
AND PREPARING FOR THE NEXT
GENERATION OF FINANCIAL SERVICES

Contents

Chairman's introduction

Prof. John Mamo
Chairman

Following the publication of our Vision 2021 document earlier this year, it is a great privilege to present the MFSA's Strategic Plan for the three-year period 2019-2021. This Strategic Plan will enable the MFSA to continue to meet its long-term operational objectives, that is, to safeguard the integrity and stability of the financial market, promote market competitiveness and protect consumer interests. This Strategic Plan is designed to enable the MFSA to achieve its vision of becoming a leading, forward-looking financial services regulator contributing towards the strengthening of the local financial services market.

The Strategic Plan, which has been approved by the Board of Governors, lays out our priorities for the three-year period 2019-2021. Several cross-sector priority areas have been identified which will guide our focus and demonstrate our commitment to:

- strengthen the governance, culture and conduct within the financial services market;
- enhance our commitment and focus to prevent, detect and address instances of money laundering, financial crime and the financing of terrorism;
- safeguard the stability and sustainability of the local financial market against current and emerging risks;
- embrace the challenges and opportunities provided by technology and innovation to enhance our supervisory capacity and foster the growth and stability of the financial market;
- increase our organisational capacity and operational efficiency whilst taking measures to address the gaps in the local labour market; and
- enhance our conduct supervisory framework focusing also on consumer education and awareness to ensure that the protection of consumer interests remains at the heart of our operations.

A number of initiatives are presented for each cross-sector strategic priority area, which have been designed taking into account the trends and challenges presented by the dynamic ecosystem inherent to the financial services sector.

This Strategic Plan also demonstrates our commitment to strengthen our international relations by engaging proactively with international institutions and in the work of the European Supervisory Authorities. We will also work towards enhancing our collaboration with other National Competent Authorities.

In addition, sector-specific priorities outlining our supervisory priorities for each sector are also presented in this Strategic Plan, providing in the process measures and initiatives designed to strengthen the financial services market. As an Authority, we strive to be more efficient and effective in the performance of our mandate whilst also ensuring transparency and accountability.

This Strategic Plan provides a holistic approach towards the achievement of our vision and marks the start of a journey during which I look forward to continuing to work with the Board of Governors and our valued staff at the MFSA.

Foreword by the CEO

Joseph Cuschieri
Chief Executive Officer

The MFSA is the single regulator for financial services in Malta. The MFSA is a member of the European System of Financial Supervision (ESFS) which includes the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Securities and Markets Authority (ESMA) and the European Systemic Risk Board (ESRB). The MFSA also forms part of the Single Supervisory Mechanism (SSM) within the European Central Bank (ECB) and participates in the SSM Supervisory Board decision-making mechanism.

It also forms part of the Single Resolution Mechanism (SRM) through its participation in the Plenary Session of the Single Resolution Board (SRB). In performing our mandate, we are guided by three high-level objectives, which are to safeguard the stability and integrity of the financial markets, protect consumer interests and promote a competitive financial market. Our Strategic Plan for the three-year period 2019-2021 encompasses our supervisory priorities, as well as the key strategic areas we aim to address to enhance the efficacy of our activities and enable us to achieve our ambitious vision.

This Strategic Plan has been developed with due consideration to a wide array of factors and challenges facing the local and international financial markets, such as challenges in the labour supply, new emerging risks emanating from the drive towards financial innovation and technology, regulatory developments and instances of misconduct on both a local and global level, which have negatively impacted the trust in the financial services market. The importance for openness, transparency and accountability are also being emphasised in our Strategic Plan.

Our Strategic Plan demonstrates a sound commitment to address the recommendations raised by the International Monetary Fund (IMF), the European Commission (EC) and European Supervisory Authorities (ESAs). We are also committed to address the recommendations provided by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). We are committed to work proactively with the National Coordination Committee to address recommendations aimed at enhancing our compliance standards to international levels in order to counter money laundering and enhance the effectiveness of their implementation.

The publication of this Strategic Plan also follows a consultation process with licence holders, in the form of a survey which was carried out in March 2019. Through this market survey, licence holders were given the opportunity to rate the performance of the Authority and provide feedback on challenges and strategic areas that should be addressed by the Authority. The Strategic Plan draws on the main pillars of our strategic framework and focuses on cross-sector priorities aimed at embracing technology and innovation, improving the efficiency and effectiveness of our core functions, that is, authorisation, supervision, enforcement and resolution, and enhance public value, governance, culture and conduct. We regulate a wide array of firms across a highly diversified financial services market.

Cross-sector priorities

This Strategic Plan identifies seven cross-sector priorities and sets out how we intend to address these priorities.

1. Governance, culture and conduct

We aim to ensure that the highest standards of governance, risk management, culture and conduct are applied within the financial services market, contributing towards enhanced accountability, market trust and transparency.

Our Strategic Plan provides for measures and initiatives which will be undertaken by the Authority to enhance its internal governance, risk management framework and organisational structure, whilst also providing for measures which are aimed at engaging with supervised firms to promote and ensure effective governance structures and cultures in the financial services market.

The memorandum of understanding entered into, earlier this year, with the Institute of Directors, based in the UK and their local branch, demonstrates our commitment to enhance Director education, standards and the effectiveness of supervised firms' governance structures and organisational cultures. Such measures will enhance the trust in the financial market, safeguard consumer interests and ensure the stability and integrity of the financial market.

2. Combatting financial crime, money laundering and terrorism financing

Combatting financial crime, money laundering and the financing of terrorism remains a key strategic priority of the MFSA, which activity poses threats to the stability of the industry and the country at large. We are committed to focus on training and awareness, whilst further strengthening the coordination and cooperation with other relevant local and international bodies. The establishment of a specialised and dedicated team on Financial Crime Compliance within the conduct and supervisory activities of the MFSA is aimed at accelerating our effectiveness in detecting and responding to risks, or instances of misconduct, by supervised firms. Thematic reviews are planned to better understand sector-specific money laundering, bribery and corruption risks, determine how firms are managing and addressing such risks and provide guidance on good practice measures which should be implemented by regulated firms. The MFSA will actively monitor and manage business-related risks pertaining to licensed virtual assets and cryptocurrency businesses.

3. Financial stability and sustainability

The MFSA continues to have a key role in safeguarding the stability and sustainability of the local financial market against current and emerging risks. Financial stability is safeguarded through our macroprudential policy, as well as through our collaboration and cooperation with international institutions.

Financial stability and sustainability remains one of our key objectives. To enhance our internal capacity and expertise in monitoring the build-up of potential risks to the financial system, our revised governance and organisational structure provides for the creation of a Financial Stability function within the newly set-up Strategy, Policy and Innovation Directorate. The Financial Stability function will be responsible for the market oversight and macroprudential activity and will interface, at operational level, with the microprudential supervisory functions of the Authority, to ensure that our macroprudential risk outlook is considered in the relevant risk models and supervisory programmes. The setting up of a new team focused on financial stability will be complemented by training programmes aimed at developing the necessary expertise within the financial stability team contributing towards a more holistic macroprudential surveillance.

As part of our Strategic Plan we also aim to enhance our monitoring of threats to financial stability, calibrating our macroprudential toolkit, policy and analytical tools to enhance the effectiveness of our oversight of the financial market. We plan to develop preventative policies designed to mitigate risks identified and enhance our work on recovery and resolution. In addition, we are currently working on enhancing risk models and the development of a network model, mapping out the interconnectedness with the banking and the wider financial sector. The planned investment in Supervisory Technology, Business Intelligence and analytical tools will further enhance our operational efficiency and effectiveness.

Thematic studies will be carried out on an ongoing basis addressing specific risk areas. Seminars and publications will also be organised and published on a regular basis to provide stakeholders with information on the results of our analysis, key market data and thematic studies.

In this respect, we will continue to work closely with international and national authorities. We are committed to enhance the level of engagement and contribution to the international discussion and in shaping the international agenda. We are also committed to work towards the agenda and supervisory convergence communicated by the ESAs. The MFSA will continue to follow developments at EU level, with respect to sustainable finance, examine the impact of proposed changes to the local financial sector and consult with all relevant stakeholders before seeking to implement the relevant EU legislation in line with the requirements of the local market.

4. Technology and innovation

Financial services are constantly evolving at a high pace and the digital transformation, or technology disruption, as it is also referred to, is providing firms with new challenges, threats and opportunities. Technology and innovation is a key priority area for the MFSA and our Strategic Plan focuses on providing solutions which nurture technology and innovation whilst facilitating access to the market. We aim to assist firms in embracing technology, overcoming the challenges it presents and taking advantage of the opportunities made possible through technology. Product and process innovation have become a key feature of the financial services industry and firms will only be able to succeed if they are able to respond to customers' needs in an efficient and cost-effective manner. As part of our Strategic Plan we strive to ensure that our regulatory and supervisory approach keeps pace with such technological progress.

Our planned investment in Supervisory Technology will ensure that we are equipped with the necessary tools and systems to be able to perform our core functions in a more efficient and effective manner.

5. Cybersecurity and resilience

The importance of having a proper cybersecurity framework has increased due to the widespread use of technology, which has seen an increase in the frequency and extent of cyber-attacks on a global basis. Cybersecurity is considered as one of our key priority areas. Measures and initiatives are planned to ensure that regulated firms have a cybersecurity programme in place, which is designed to enhance their resilience to cyber-attacks and mitigate the risks associated with such threats, such as, disruption of service, data breaches and the loss of data, amongst others.

6. Organisational and operational capacity

The enhancement of our organisational and operational efficiency and effectiveness is another strategic priority. The investment in the right technology must also be complemented by the required resources. For this purpose, we are planning significant investment in human resources having the required experience, skills and competencies to ensure that the Authority is well-equipped to carry out its mandate. This Strategic Plan presents measures on how we intend to enhance our organisational and operational capacity.

Reforms to the Educational Consultative Council, the formation of an Academy for Financial Supervisors, and measures aimed at increasing awareness and interest in careers within financial services are also being proposed to address the gaps in the labour market.

7. Conduct supervision

Adding public value and protecting consumer interests are key strategic objectives of the MFSA. For this purpose, the enhancement of our conduct supervisory framework has been identified as an area of focus, to ensure that the interests of consumers of financial services are protected and are placed at the centre of supervised firms' operations. As part of our supervisory work we gather information on instances of harm, or risks of potential harm. We plan to gather such information through multiple sources such as routine supervisory and enforcement activity, mystery shopping, thematic reviews, market research, social media listening and surveys, amongst others. Measures are also being planned to ensure the timely analysis of such information and remedial action taken. Educational and awareness campaigns are being planned on an annual basis to enhance consumer confidence in the financial market and raise consumer awareness.

Sector-specific priorities

In addition to the above cross-sector strategic priorities, the Strategic Plan provides sector-specific supervisory priorities whilst also providing for other measures catering for sector-specific challenges and regulatory developments.

1. Credit and Financial Institutions

With respect to credit and financial institutions, we are carrying out a diagnostic analysis of Banking Supervision to assess and enhance its function, approach and priorities in view of the constantly evolving financial market. We are focusing on enhancing current processes and practices, through the application of Supervisory Technology, amongst others, and revisiting the supervisory framework applied. This analysis, which takes into account the current and future challenges faced by the banking sector, shall be followed up by a remediation plan to address the challenges identified and enhance the efficiency and effectiveness of the Banking Supervision team. Our supervisory priorities for credit institutions will predominantly focus on credit risk and the efficacy of risk management policies and processes applied by supervised firms.

As part of our supervisory work we plan to develop a concentration risk model designed to challenge the capital set aside by banks to address concentration risk. In addition, we also plan to enhance the extent and frequency of on-site supervision guided by our risk-based supervisory framework. A number of thematic reviews will be planned and conducted on an ongoing basis to assess, investigate and address current and emerging risks pertaining to credit and financial institutions. This will be further complemented by consumer awareness and educational campaigns, as well as ongoing regulatory development.

2. Insurance and Pensions

Our supervisory priorities for the insurance and pensions sector will focus on risk management and governance of supervised firms to safeguard the financial stability of the sector. As part of our Strategic Plan we also aim to take measures to embrace and respond to Insurance Technology with a view to enhance our supervisory capacity, as well as enable supervised firms to take advantage of the opportunities presented by technological advancements for the benefit of consumers. We are also planning to develop a formal recovery and resolution framework to be applied by insurers to secure that supervised firms are better prepared to recover from severe stress situations. Similar to credit and financial institutions, thematic reviews, consumer awareness campaigns and regulatory development updates will be carried out on an ongoing basis to safeguard consumer interests and safeguard the integrity of the market.

3. Securities and Markets

In the securities and markets sector our supervisory priorities will, amongst others, focus on the governance and compliance structures of supervised firms and their resilience to cyber-attacks. Compliance to MiFID II will also be one of our supervisory priorities to ensure that supervised firms, falling within the scope of MiFID II, comply with its requirements. Regulatory development will be carried out on an ongoing basis. The rules applicable to Collective Investment Schemes and Investment Services Providers are currently being reviewed whilst we will also be following up on developments with respect to liquidity management and performance fees, amongst other areas. We are further committed to enhance our engagement with the market, to determine any other regulation required, to ensure that our regulatory framework appropriately addresses new market developments. Where necessary, we will explore and develop additions to the legal framework for new vehicles or products, which supervised firms may promote to contribute to the growth of the financial services market.

With respect to capital markets, we are currently in the process of formulating our Capital Market Strategy, focusing on revisions to the regulatory framework, enhancing our supervisory capacity and investor education, amongst other pillars defined in this Strategic Plan.

4. Trustees and Corporate Services Providers

Our supervisory priorities with respect to trustees and corporate services providers will focus on the proper governance of supervised firms. We will review and assess, amongst other areas, the effectiveness of the Board of Directors, the compliance function, business models and the risk assessment of supervised firms. Regular thematic reviews are planned to address specific risk areas identified through our supervisory work and following market developments. The results of thematic reviews, listing common findings, shortcomings and weaknesses will be communicated to licence holders. Guidance notes and circulars will also be issued to assist licence holders in mitigating risks identified. Training is also being planned on a regular basis providing regulated firms with updates on regulatory requirements and risk areas that need to be addressed. Regulatory development is also planned on an ongoing basis to address market developments and to ensure the transposition of EU directives.

Resolution

Resolution cuts across the sectoral supervisory functions. The priority will be to have resolution plans for all credit institutions and certain investment firms. This will enable Resolution to set a Minimum Requirement of Own Funds and Eligible Liabilities (MREL) for these entities taking into consideration the specificities of the local market. Moving forward, MREL setting will be based on a refined MREL policy which introduces a series of new features to strengthen the MREL approach and the entities' resolvability within the Banking Union.

Looking ahead, discussions on resolution framework for insurers are also expected on a European level which entails the application of such framework nationally. Finally, policies and procedures to enhance the resolution framework on a technical and legal level will be developed further, especially in view of proposed new European legislation.

Brexit

At the MFSA, we will continue to monitor the Brexit situation, assessing the implications of a no-deal Brexit on all sectors, and assessing the resultant challenges and opportunities. We are in the process of preparing legislation to implement a temporary permission regime for UK-licensed firms passporting into Malta, in order for such entities to continue providing their services to existing Maltese clients for a limited time-period, subject to specific conditions.

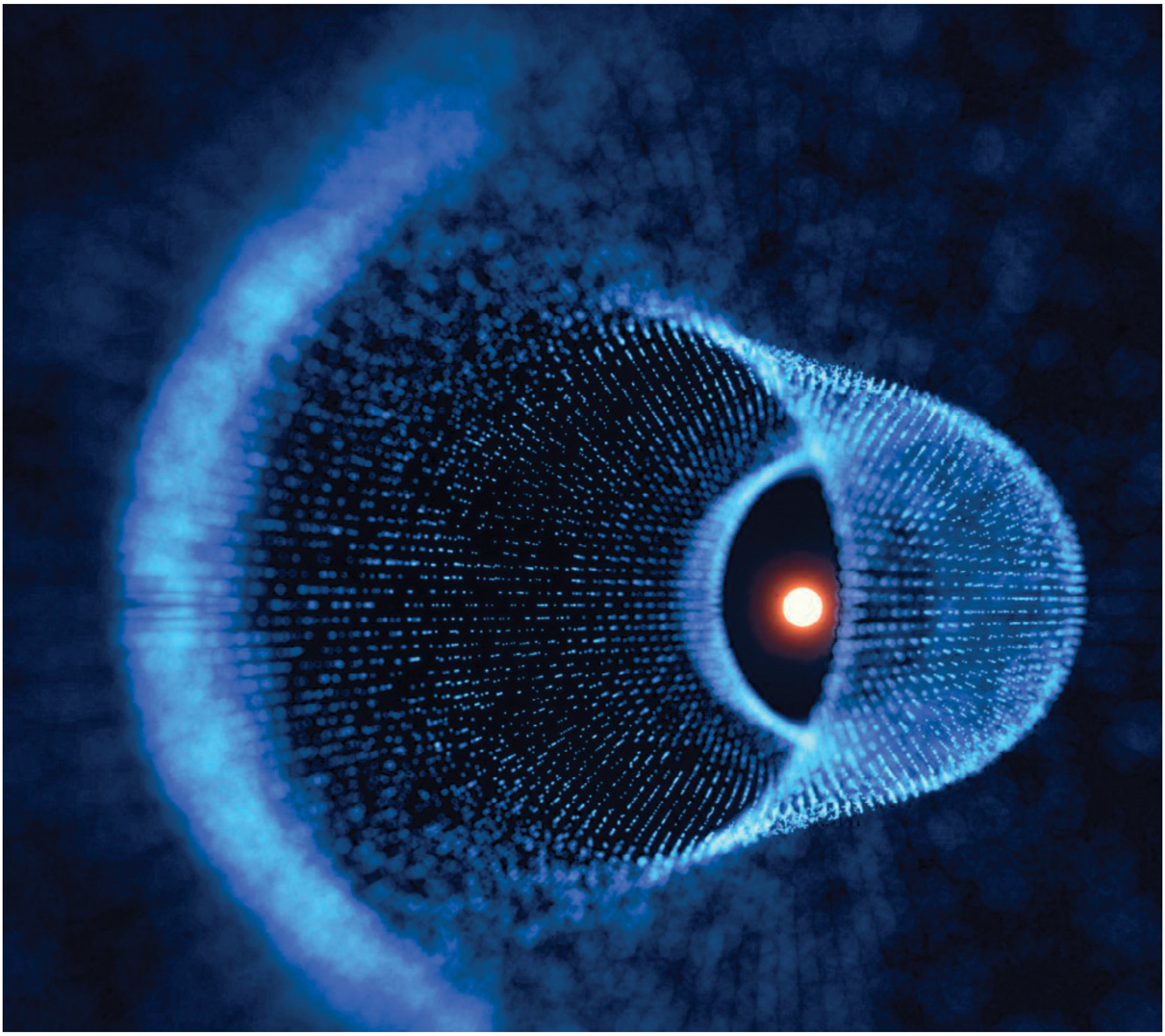
The implementation of this Strategic Plan requires significant investment in technology, expertise and human resources. The MFSA is expected by international standards to be operationally independent. As a result, we are currently considering revisions to our fee structures to reduce our dependency on government funding and, in the long run, become financially self-sustainable.

We are committed to enhance our cooperation with other regulators. We shall maintain open channels of communication with all regulators, both at national and international level, sharing views and collaborating in all areas of financial regulation.

The publication of this Strategic Plan provides our strategic direction for the three-year period 2019-2021, which we are committed to deliver to provide a more agile, dynamic and efficient environment to the benefit of consumers and regulated firms. This will establish the MFSA as a leading, forward-looking financial services regulator, earning the respect and trust of the industry and the general public.

Chapter 1

MFSA’s mission, mandate and vision



Our mission

Our mission statement is at the heart of all our operations, incorporates our key priorities and is designed to inspire and mobilise our employees.

Our mission is:

To be an independent, proactive and trustworthy 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.

The MFSA has been pivotal in the development of Malta as an international financial services centre. Malta's success in this sector is evidenced by the wide range of financial services available. The Maltese financial services sector is highly diversified and incorporates all financial activity including that of credit institutions, financial and electronic money institutions, securities and investment services companies, trading venues, insurance companies, pension schemes, trustees and crypto assets.

Our mandate

The MFSA is an autonomous public institution which reports directly to Parliament. It is the single regulator for more than 2,300 financial services firms in Malta. The MFSA was established on 23rd July 2002 taking over the supervisory functions previously carried out by the Central Bank of Malta, the Malta Stock Exchange and the Malta Financial Services Centre. It also acts as the Listing Authority for the purpose of the Financial Markets Act and the Resolution Authority for the purpose of Directive 2014/59/EU and the Recovery and Resolution Regulations (S.L. 330.09). The MFSA is also responsible for consumer education and consumer protection in the financial services sector.

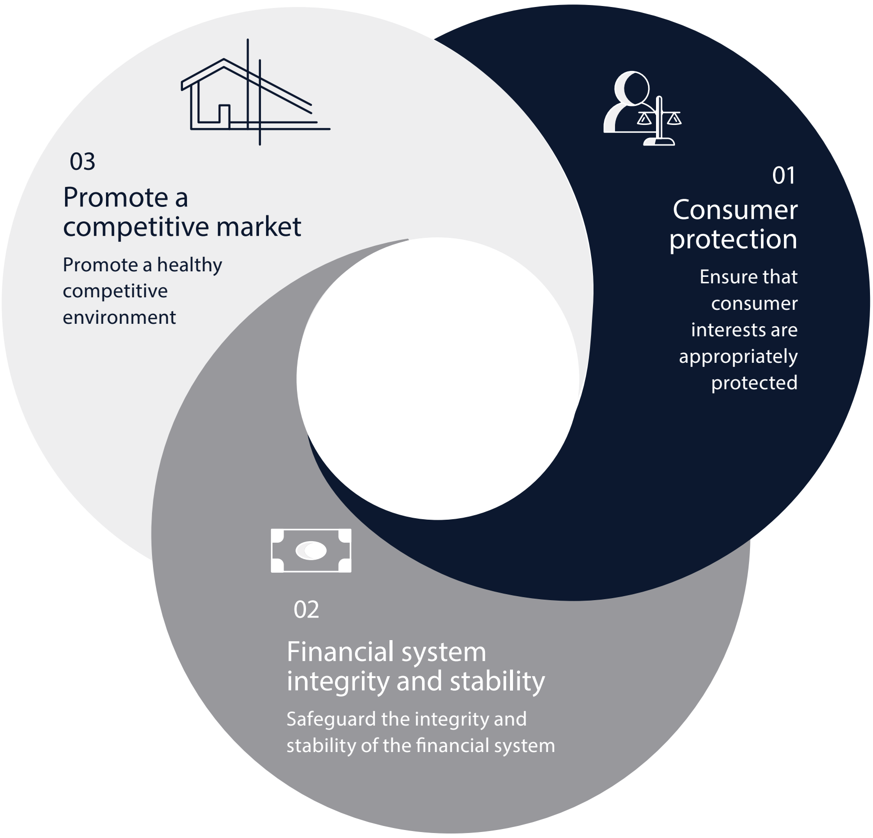
Malta is a jurisdiction actively involved within the Organisation for Economic Co-operation and Development (OECD), the EU and the Commonwealth in shaping global regulatory policy. The MFSA is a member of the ESFS which was introduced in 2010 and consists of the ESRB and the three European Supervisory Authorities being the EBA, ESMA, and the EIOPA. The MFSA also forms part of the SSM, which establishes the ECB as the central prudential supervisor of credit institutions in the euro area. Under the SSM, the largest banks in the euro area are directly supervised by the ECB working closely with national supervisors, whilst the national supervisory authorities continue to monitor the remaining banks.

The MFSA also forms part of the SRM which establishes the SRB – the European Authority in charge of resolution. The SRB is responsible for the significant institutions in Malta, whilst the national resolution authority is responsible for the remaining entities.

The main functions of the MFSA, as provided by the Malta Financial Services Authority Act, Cap. 330 of the Laws of Malta, are as follows:

1. Regulate, monitor and supervise financial services in Malta.
2. Promote the general interests and legitimate expectations of consumers of financial services.
3. Promote a fair and competitive market.
4. Provide relevant information and guidance to the public.
5. Monitor the working and enforcement of laws relating to financial services.
6. Advise the Government on the formulation of policies and put forward recommendations to enhance the regulatory and supervisory functions of the Authority.
7. Investigate practices and activities detrimental to consumers and take measures to suppress and prevent practices which are unfair, harmful or detrimental to consumers of financial services.

In carrying out its functions the MFSA seeks to achieve three high-level objectives, which encompass the functions assigned to it by law:



A survey carried out with licence holders in March 2019 sought feedback on the MFSA's effectiveness in achieving these high-level objectives. An average of 67.5% of the respondents believe that the MFSA is either effective or very effective in protecting the interests of consumers, safeguarding the stability and integrity of the financial market and in promoting a competitive financial market.

Whilst the results from the survey are encouraging, this three-year Strategic Plan is being designed to ensure that the MFSA achieves its Vision 2021 whilst enhancing its effectiveness in achieving these high-level objectives.

Our vision

At the MFSA we are committed to be a proactive, independent and influential regulator with a clear and challenging vision of being:

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.

A leading Authority

We aim to be one of the leading authorities and regulators of financial services.

Forward-looking

We strive to be proactive and forward-looking to ensure the strength, stability and growth of the financial services market.

Respected by the industry and the public

We will work constructively to maintain the respect and trust of the industry and the general public.

Overview of the Strategic Plan

Chapter 2 presents our strategic framework and objectives as well as our key priority areas for the three-year period 2019 to 2021, which include both cross-sector and sector-specific priority areas.

Chapter 3 of this Strategic Plan presents a detailed analysis of our cross-sector priorities for the three-year period 2019-2021, explaining in the process, the benefits expected to be gained by the regulator, supervised firms, the consumers and the market at large.

Sector-specific priorities we intend to address over the three-year period 2019-2021 are presented in **Chapter 4**.

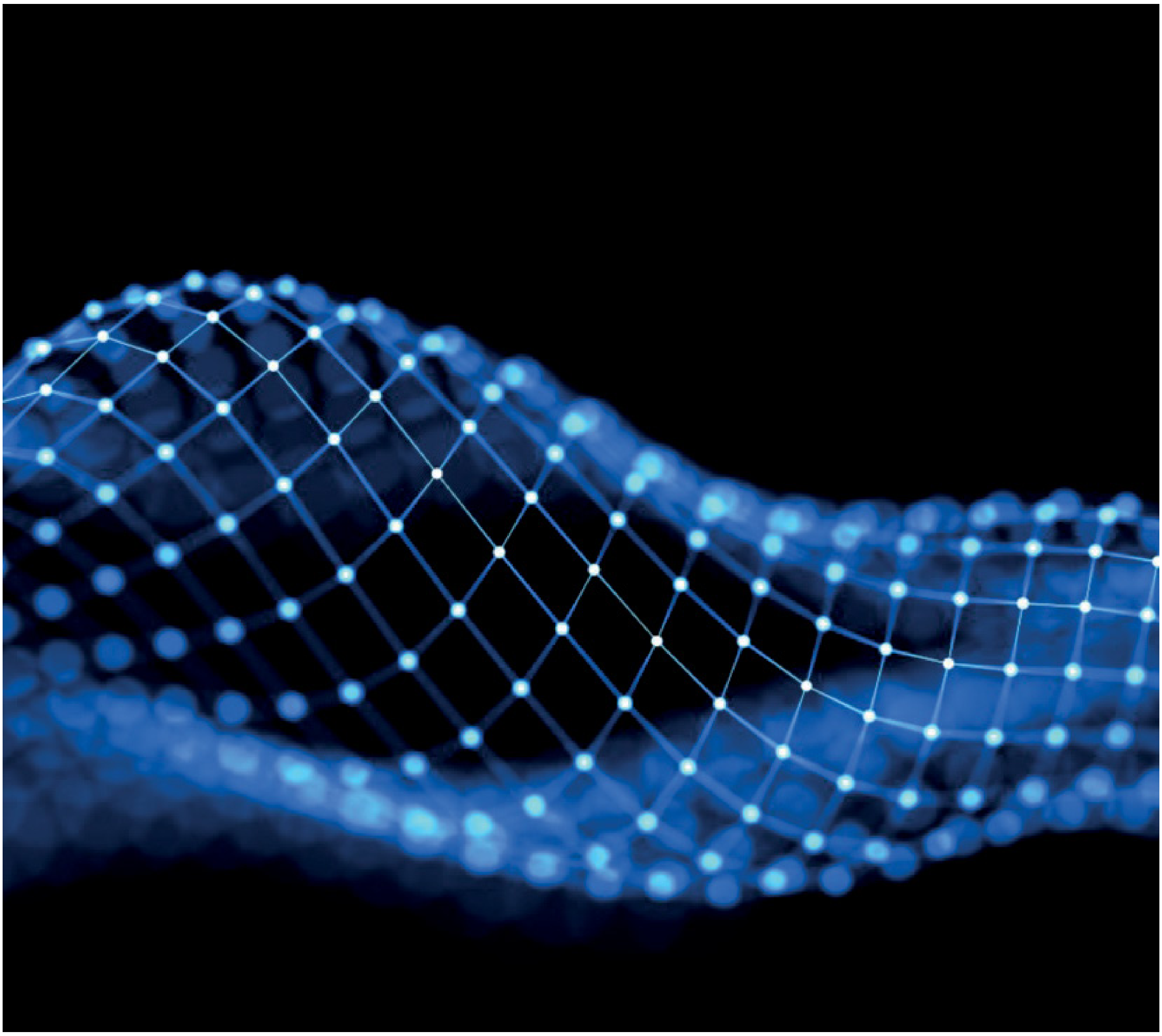
Sector-specific priorities have been determined on the basis of our market insight and also through feedback we obtained from relevant stakeholders.

Chapter 5 then provides an overview of the initiatives planned to be undertaken over the next 12 months.

As a conclusion to our Strategic Plan, **Chapter 6** provides an insight into our operational activities and finances to continue to demonstrate our transparency in the manner we operate.

Chapter 2

Our strategic objectives, framework and priorities



This Strategic Plan covers the period 2019-2021 and outlines the MFSA's strategy vis-à-vis regulation, supervision and innovation for the upcoming years, designed to enable the MFSA to attain its mission and vision.

The Strategic Plan has been developed within a broad context of factors which include:

- a growing economy which has also led to significant challenges in the labour market;
- recent instances of misconduct both on a local and global basis which have impacted trust in the financial markets;
- new emerging risks arising from financial innovation, technology and cybersecurity;
- the establishment of a new agency, the Malta Business Registry, responsible for the Registry of Companies, and hence the demerging from the MFSA;
- the added importance for openness, transparency and accountability.

In developing this Strategic Plan we have carried out a comprehensive assessment of the risks and challenges we need to overcome to successfully carry out our functions. This Strategic Plan demonstrates our commitment to address recommendations provided by the IMF, the EC and ESAs. In addition, the feedback received through the survey carried out with licence holders was analysed, evaluated and considered in the setting up of our Strategic Plan. We have also analysed market trends and developments to assess potential areas which may be explored by the Authority, in our drive to be proactive and forward-looking. We believe that this Strategic Plan will take the MFSA to the next level and consolidate Malta's position as one of Europe's most innovative financial services jurisdictions.

Our strategic objectives

In our journey to achieve our vision we have set the following key strategic objectives for the years 2019 – 2021:

01

Safeguard consumers' interests whilst enhancing consumer trust in the financial services market and increasing market confidence in the MFSA's regulatory and supervisory capabilities to establish the MFSA as a leading and respected supervisory authority.

02

Harmonise our regulatory and risk-based supervisory approach across the entire spectrum of the financial services market.

03

Embrace the digital transformation affecting the financial services sector and implement a holistic and long-term approach to infuse innovation, growth and competition in the financial services market with a view to establish Malta as an international Financial Technology (FinTech) hub.

04

Invest and modernise the Authority's IT infrastructure and systems, whilst enhancing our organisational and operational capacity to drive the efficiency and effectiveness of our operations.

Our strategic framework

The MFSA believes in the development of a dynamic strategic framework that fosters innovation, supports new technologies, and enables the industry to develop new products and services within a sound regulatory environment. Our strategic framework is designed on the following pillars and drivers:

Public value

Our aim as a regulator is to add public value by ensuring that supervised firms, within the financial services sector, operate in a manner that benefits consumers and hence adds public value.

The MFSA plays a pivotal role in this regard by seeking to provide a harmonised regulatory approach, enhance market confidence, improve the financial markets and prevent and redress misconduct.

Firms operating within the local financial market are supervised and monitored to safeguard the interests of consumers and the integrity and soundness of the financial market. We seek to promote a fair and competitive market, driving efficiencies in the financial market to the benefit of the consumer.

Governance, culture and conduct

When authorising new firms to operate within the financial services market and also through our supervisory role we seek to ensure that firms have a governance structure and risk management framework which are sufficient to identify, manage and address risks of misconduct. We also seek to ensure that senior and key individuals within firms demonstrate the right standards of behaviour, which hence positively contribute to the firm's culture.

Authorisations, supervision, enforcement and resolution

When authorising new firms we seek to prevent misconduct and potential harm to consumers and the market at large. Before authorising a firm we ensure that firms meet a common set of standards and demonstrate compliance to these standards and conditions not only at authorisation stage but throughout their lifecycle.

Our approach to supervision is based on a risk-based approach. We aim to be forward-looking by detecting potential shifts in systemic risks, pre-empting poor conduct, improving data quality and addressing any risk indicators in a timely manner. We systematically assess a firm's strategies and business models to identify any emerging risks and mitigate such risks accordingly. We also study behavioural drivers within a firm's governance and culture to identify and address any risks before they result in harm to the consumers.

Any firms not complying with regulations and requirements are held accountable. Through our Enforcement function we monitor, detect and investigate breaches by firms, whilst working in close collaboration with the Authorisation and Supervisory functions of the MFSA. On an annual basis we assess whether such enforcement action was carried out in a fair and effective manner.

In addition, when a firm is deemed to be in financial distress or certain triggers are identified, the supervisory arm of the MFSA will intervene and take appropriate action. Should a firm not recover, the MFSA as the competent authority, or the Resolution Committee, may declare the firm as failing or likely to fail.

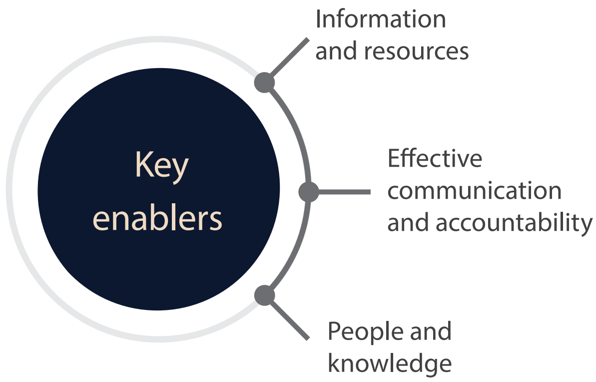
The Resolution Committee carries out a public interest assessment to identify the preferred resolution strategy and determine whether a firm goes to resolution or normal insolvency proceedings.

Technology and innovation

Financial services are constantly evolving in response to technological advancements. Technology and innovation are a key element of our strategic framework as we continuously strive to explore innovative ways to enhance the functioning and effectiveness of the financial market.

We also seek to keep abreast of technological changes and innovation in order to ensure that our regulations keep pace, and to further develop and strengthen the local financial market.

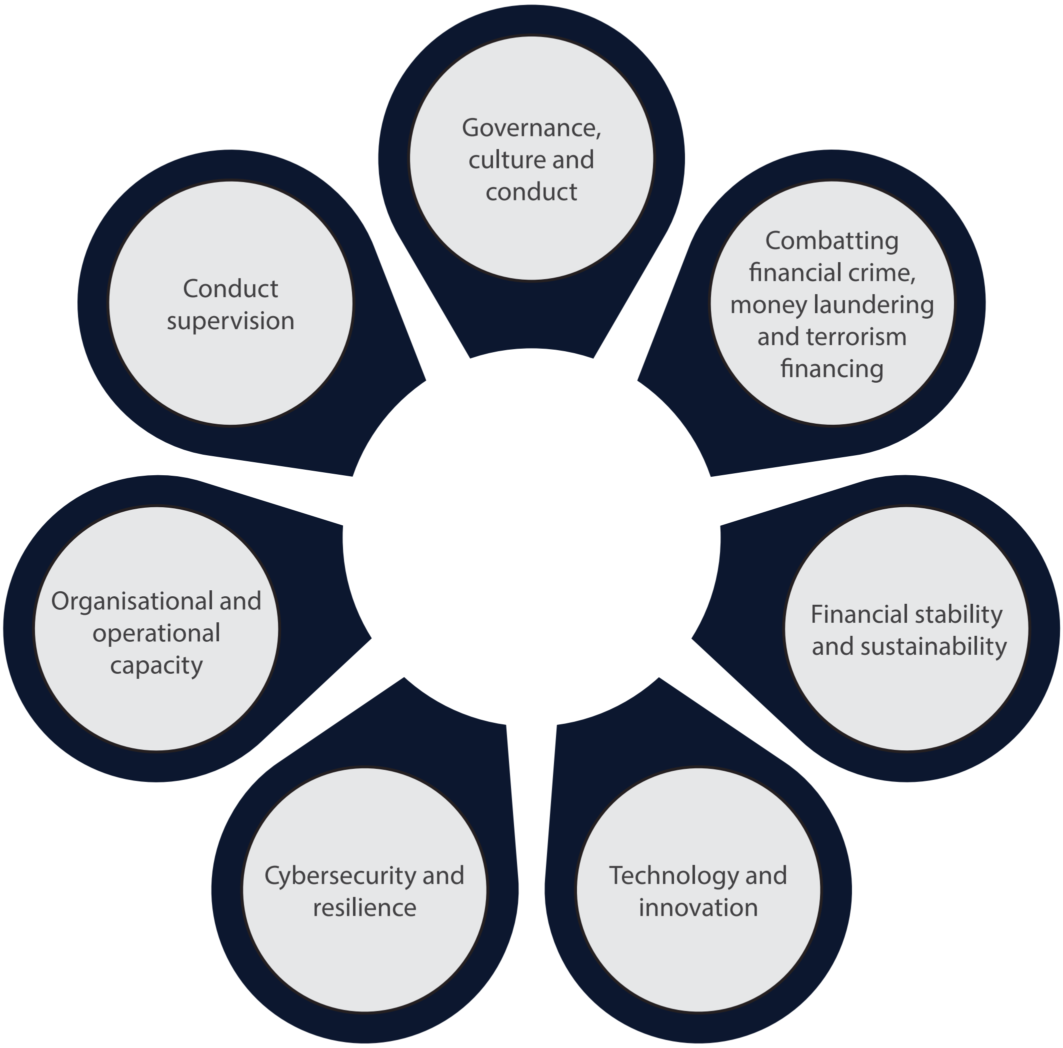
To achieve our strategic objectives we have identified a number of cross-sector and sector-specific priorities which will enable us to address these strategic objectives and achieve our vision. The priority areas identified focus on the key pillars of our strategic framework, presented above, and draw on the following key enablers:



These critical enablers are being managed at a strategic level to enable us to achieve our mission and vision. We understand that the achievement of our mission and vision is dependent on how we organise our internal capabilities in order to address our broad and complex mandate.

Cross-sector priorities

This Strategic Plan focuses on seven cross-sector priorities deemed critical for us to be able to perform our functions in an efficient and effective manner and to achieve our vision.



Governance, culture and conduct

Corporate governance affects all aspects of every organisation. Our Strategic Plan will aim to focus on enhancing our governance structure with a view to maintain the highest standards of governance, risk management and conduct. Good corporate governance is key to ensuring that the MFSA performs its core functions, as provided by the MFSA Act, in an effective and efficient manner. A good corporate governance structure also contributes towards enhancing accountability, market trust and transparency.

The Strategic Plan will also focus on initiatives and measures designed to engage with firms, with a view to promote effective governance structures and cultures in the financial services market. Such initiatives are designed to ensure that firms and all relevant stakeholders understand our approach. Having the right governance, culture and conduct within firms will ensure that firms appoint people with the required attributes, skills, competencies and knowledge, who will work in the interest of consumers.

Combatting financial crime, money laundering and terrorism financing

Financial crime, money laundering and terrorism financing pose threats to the stability of the industry and the country at large, as also highlighted in the recent National Risk Assessment. Moreover, the trust in the financial services sector has been negatively impacted by recent events both on a local and international level. In view of this we have made the combatting of financial crime, money laundering and terrorism financing one of our key strategic priorities.

Financial stability and sustainability

The stability and sustainability of the local financial market is one of our key strategic priority areas and one of our key objectives. The MFSA has a key role to play in assessing the vulnerabilities and risks affecting the financial market and in identifying and reviewing, within a macroprudential perspective, the regulatory, supervisory and related actions needed to strengthen the resilience of the financial system in Malta. For this purpose, a number of measures and initiatives are presented in this Strategic Plan designed to enhance our oversight on the stability of the financial market and ensure a sustainable economy, by building a financial system that supports sustainable growth.

Technology and innovation

Business models as well as the products and services offered by the financial services sector are being shaped by giving more significance to data, analytics, risk management, compliance, security, digitisation, enterprise mobility, payments and enhanced customer experience. Product and process innovation is a key feature of the financial services industry. To succeed in today’s market, firms must be able to respond to customer requirements in an efficient and cost-effective manner.

In today’s technology-driven world, firms are seeking to make use of technology and innovation to support their business strategies. This digital transformation is contributing towards more innovative products and services to the benefit of consumers and the market at large. For instance, new technologies which foster innovation, such as distributed ledger technology, may assist firms in complying with their due diligence procedures more efficiently and effectively.

Technology and innovation is considered as a key priority for the MFSA and our Strategic Plan focuses on a number of initiatives designed to address the manner in which the financial markets have evolved and ensure that our regulatory and supervisory functions keep pace with such developments. The initiatives presented in this Strategic Plan focus on providing solutions which nurture technology and innovation whilst facilitating access to the market. The MFSA is also embarking on an ambitious Technology Strategy for the period 2019-2021 which is required for the Authority to embrace, keep pace and remain a step ahead of the challenges presented by such technological advancements.

This Strategic Plan will outline how the Authority intends to invest and embrace the latest technology to be equipped with the necessary tools and systems to enable the MFSA to rationalise the knowledge we collect and be able to perform our core functions in an efficient and more effective manner.

Cybersecurity and resilience

The widespread use of technology creates new opportunities for cybercrime if such technology and innovation are not adopted and managed in a safe and proper manner. The frequency and extent of cyber-attacks is on the rise across all sectors and the financial services market is no exception.

For this purpose, our Strategic Plan focuses on ensuring that firms operating within the financial services market are prepared to address these challenges and are more resilient to such cyber threats, reducing the risks of disruptions, data breaches and the loss of data.

Organisational and operational capacity

To safeguard the stability and integrity of the financial market and protect consumers' interests, it is imperative that personnel within the financial services sector demonstrate the right standards of behaviour and have the required competencies to carry out the role(s) assigned to them. Similarly, for us to be able to perform our mandate in an efficient and effective manner, the right technology must be complemented by the required resources with the right experience, skills and competencies. This Strategic Plan presents initiatives and measures targeted to present a cohesive and coherent strategy to address the gaps in the labour market and enhance the organisational and operational capacity of the Authority.

Conduct supervision

One of our key strategic objectives is to safeguard and protect consumer interests. For this purpose our Strategic Plan for the years 2019–2021 includes initiatives designed to enhance our conduct supervisory framework to ensure that regulated firms place consumers at the heart of their business model with a view to safeguard consumers' interests and improve the service offerings of regulated firms.

Sector-specific priorities

These sector-specific priorities, presented in Chapter 4 of this Strategic Plan, have been determined following our analysis of market trends and developments and also following feedback obtained from international peer reviewers and other regulatory stakeholders, and responses received from supervised firms through a survey carried out during the month of March 2019.

Such sector-specific priorities focus primarily on:

Chapter 3

Cross-sector initiatives

Governance, culture and conduct

This Section focuses on measures planned to enhance the governance and risk management framework of the Authority taking into account feedback provided by various stakeholders and discussions held with the IMF, EC and ESAs, in relation to the MFSA's technical and human resources, and the extent of supervision.

We also provide a number of initiatives aimed at enhancing the governance and conduct of supervised firms which is key to ensuring the stability and integrity of the financial market.

Enhance the MFSA's governance and organisational structure

In response to feedback received from relevant stakeholders we are in the process of implementing recent revisions to our governance and organisational structure.

We expect these changes to enhance the efficiency and effectiveness of our internal processes and our supervisory functions.

As a first step, the role of "Chief Executive Officer" (CEO) was introduced in the MFSA's organisational structure, with the responsibility for the overall performance of the Authority and the implementation of its objectives, strategy and policies, as set by the MFSA's Board of Governors. At the same time, the Chair of the Board of Governors no longer has an executive role in the Authority as such role was assigned to the CEO.

Following the appointment of a non-executive Chair to the Board of Governors and the introduction of the CEO role, the MFSA has reassessed its current organisational set-up with a view to enhancing its operational efficiency and effectiveness. In this regard, the MFSA is proposing a number of reforms with the aim of addressing supervisory gaps and fragmentation, streamlining the organisation structure, enhancing the efficacy of the decision-making process, as well as eliminating the duplication of supervisory processes. The revised governance and organisational structure will provide the backbone for our regulatory and supervisory role.

The revised governance and organisational structure provides for the establishment of the following:

- Executive Committee;
- Risk Committee;
- Enforcement Decisions Committee;
- Enforcement Directorate;
- Financial Services Stakeholder Panel;
- Regulatory Committee;
- Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) Committee; and a
- Specialised function focused on Financial Crime Compliance.

The **Executive Committee** replaces the Supervisory Council, the Board of Management and Resources and the Co-ordination Committee and will be responsible for:

- the implementation of the strategy and policies of the Authority;
- the approval of regulation;
- the approval of licences and other authorisations;
- the monitoring and supervision of persons and other entities licensed or authorised by the Authority;
- the enforcement of the regulatory framework in the financial services sector;
- the overall performance of the Authority;
- the general coordination and management of the Authority's administrative and operational affairs;
- the overall responsibility for supervision, enforcement, strategy and policy implementation;
- the establishment and empowerment of sub-committees and functions, defining their respective roles and responsibilities in the process; and
- the overall responsibility for operational decisions.

To further support the Executive Committee in attaining the Authority's objectives and improve efficiency and focus, five directorates have been set up:

- General Counsel;
- Directorate for Enforcement;
- Directorate for Supervision;
- Directorate for Strategy, Policy and Innovation; and
- Directorate for Operations.

For this purpose, the roles of Director General and Chief Operations Officer have been re-dimensioned, as Chief Officer – Supervision and Chief Officer – Operations. These will be complemented by three additional roles: General Counsel, Chief Officer – Enforcement and Chief Officer – Strategy, Policy and Innovation.

The Executive Committee is composed of the CEO who chairs the Committee, the General Counsel and the Chief Officers responsible for the Supervision, Enforcement, Operations and Strategy, Policy and Innovation.

Similar to the **Audit Committee**, the newly-established **Risk Committee** and **Enforcement Decisions Committee** will report directly to the Board of Governors.

The **Audit Committee** established by the Board of Governors acts independently, and assists the Board of Governors in its oversight responsibilities for the internal governance, internal controls, financial statements, risk management and internal audit function of the Authority. In line with the Audit Committee Charter the Head of Internal Audit has free and confidential access to the Chairperson of the Audit Committee.

The main function of the **Risk Committee** will be to assist the Executive Committee and the Board of Governors in relation to the establishment and calibration of the Authority's risk appetite and risk management. In the process, the Risk Committee will ensure that the Authority's strategy is in line with its risk appetite.

The **Enforcement Decisions Committee** is being established in order to provide a clear line of demarcation between authorisations, supervision and enforcement within the financial services industry, taking on board the recommendations provided by the IMF. This Committee shall be composed of competent individuals from outside the Authority who are experienced in financial services and/or legal affairs and who shall act independently from

the Executive Committee. Acting separately from the Enforcement Decisions Committee is the Enforcement Directorate, strengthening enforcement within the Authority.

This Directorate will be tasked with enforcement decisions, investigations and making recommendations for the Enforcement Decisions Committee's consideration. The implementation of these amendments will ensure that administrative decisions are based on logical proof or material evidence.

The **Financial Services Stakeholders Panel** is being created to provide the MFSA with a forum through which it can engage in consultation with all stakeholders including practitioners, local and foreign institutions and licence holders. This will ensure that policy reforms and programmes embarked by the Authority are shaped and designed on international best practices and research.

In line with the recommendations made by the IMF, a **Regulatory Committee** is being established as a sub-committee of the Executive Committee. The Regulatory Committee will co-ordinate regulatory, authorisations and supervisory matters and will be composed of the Chief Officer - Supervision as its Chair, the Head of Authorisations and the Heads of our Supervisory functions. The Chief Officer - Supervision will update the Executive Committee on an ongoing basis on the discussions and decisions made at the level of the Regulatory Committee.

The **AML/CFT Committee** is being set up to act as a forum for alignment and coordination relating to AML/CFT investigations and processes. It will also advise the Executive Committee on process improvements relating to AML/CFT procedures.

The **General Counsel** role has been recently created with a new set of defined functions and responsibilities. This function is responsible for legal and international affairs relating to the MFSA. The Directorate is accountable to provide general legal counsel across the organisation relating to diverse areas including the MFSA's governance, functions and operations. The Directorate tenders advice on various legal, contractual, strategic and operational matters as well as on issues relating to the Authority's governance structure. The General Counsel handles the coordination relating to the legislative process for the introduction of new laws and transpositions of domestic legislation under the MFSA's governance in line with its functions stipulated by law. It also provides advice to Government on the formulation of financial services policy, mainly relating to upcoming legislative and non-legislative proposals issued by the EC. The team is actively engaged in policy dialogue, negotiations and follow up of EU institutional affairs and dossiers, so as to provide constructive feedback to Government in the attainment of national positions for the benefit of the country.

In addition, the General Counsel also coordinates relations with international organisations and memoranda of understanding with other foreign regulators, as well as the exchange of information requests resulting thereto.

The political and economic landscape is subject to constant change. The EC will continue to come forward with a series of reforms to secure financial stability and improve the supervision of financial markets. The Commission's priorities for the next term in the financial services sector notably include a revival of the Banking Union and Capital Markets Union project and a strong emphasis being put on Sustainable Finance, Non-Performing Loans (NPLs) and FinTech in particular. The EC also foresees a number of legislative initiatives, such as the potential review of Solvency II, the recovery and resolution framework for insurers and the implementation of Basel IV standards through the review and amendments to the Capital Requirements Directive and Regulation (CRD/CRR), amongst others. EU policy decisions have substantial impact on the whole financial services ecosystem developed in Malta and therefore it is crucial for the MFSA to remain on top of the game in ensuring a proactive and productive approach in order to influence the international and European regulatory agenda and continuously ensure to future-proof the regulatory frameworks in force, in the wake of disruption and other developments.

Our revised organisation structure also seeks to strengthen our Supervisory Directorate by the establishment of a **Financial Crime Compliance function** and an **Information and Communications Technology (ICT) Risk & Cybersecurity function**.

The **Financial Crime Compliance function** comprises of a specialised team who focus specifically on AML/CFT supervision and financial crime compliance. The Financial Crime Compliance function has been set up with the assistance of international experts in the field of financial crime and will work closely with the Financial Intelligence Analysis Unit (FIAU), in the coordination of AML/CFT reviews and inspections of supervised institutions.

The ICT Risk & Cybersecurity function is being created to provide specialist support services to our Authorisations and Supervision teams covering all financial sectors in terms of cybersecurity forensics, supervisory investigations or enforcement actions as required.

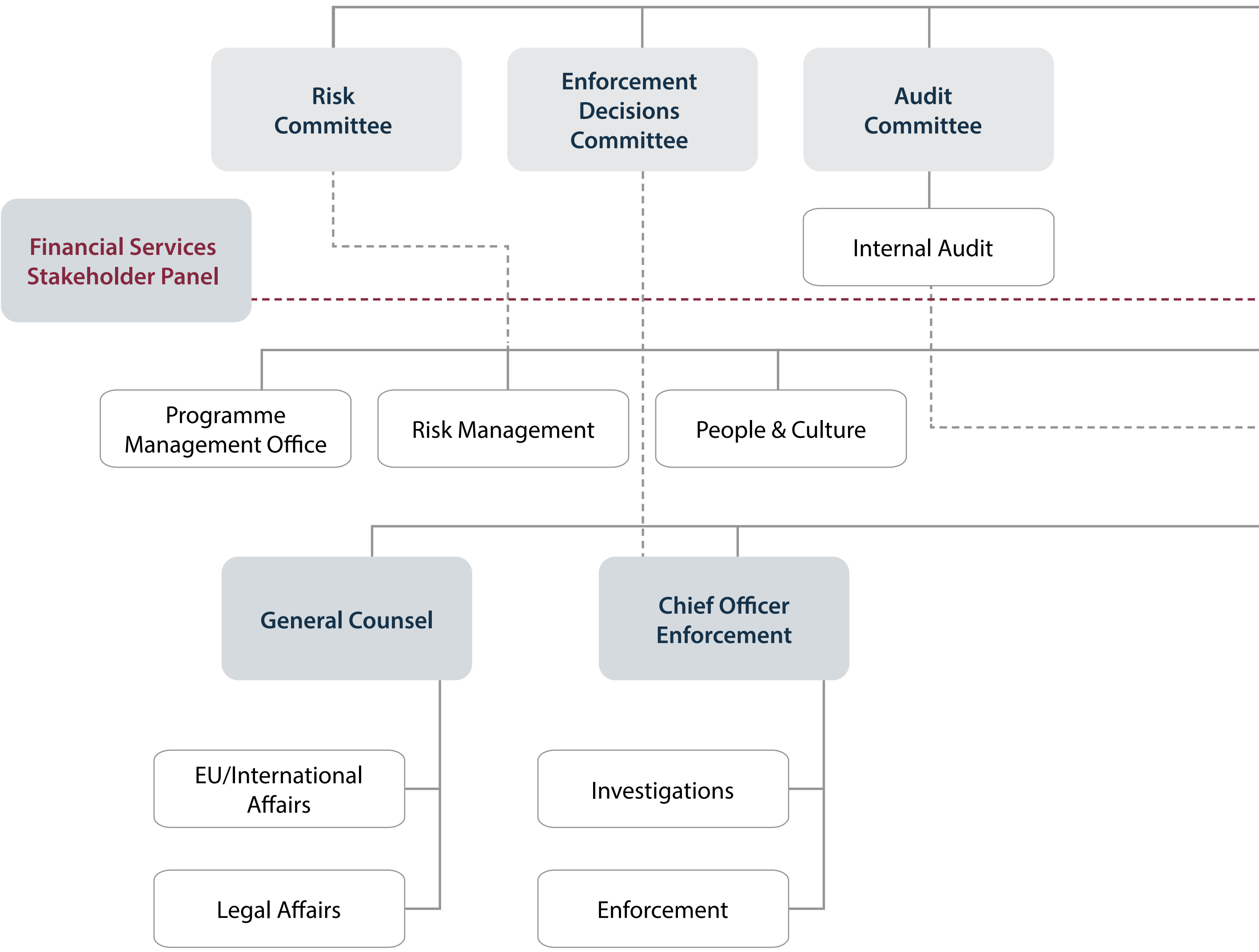
The ICT Risk & Cybersecurity function will be responsible for the following:

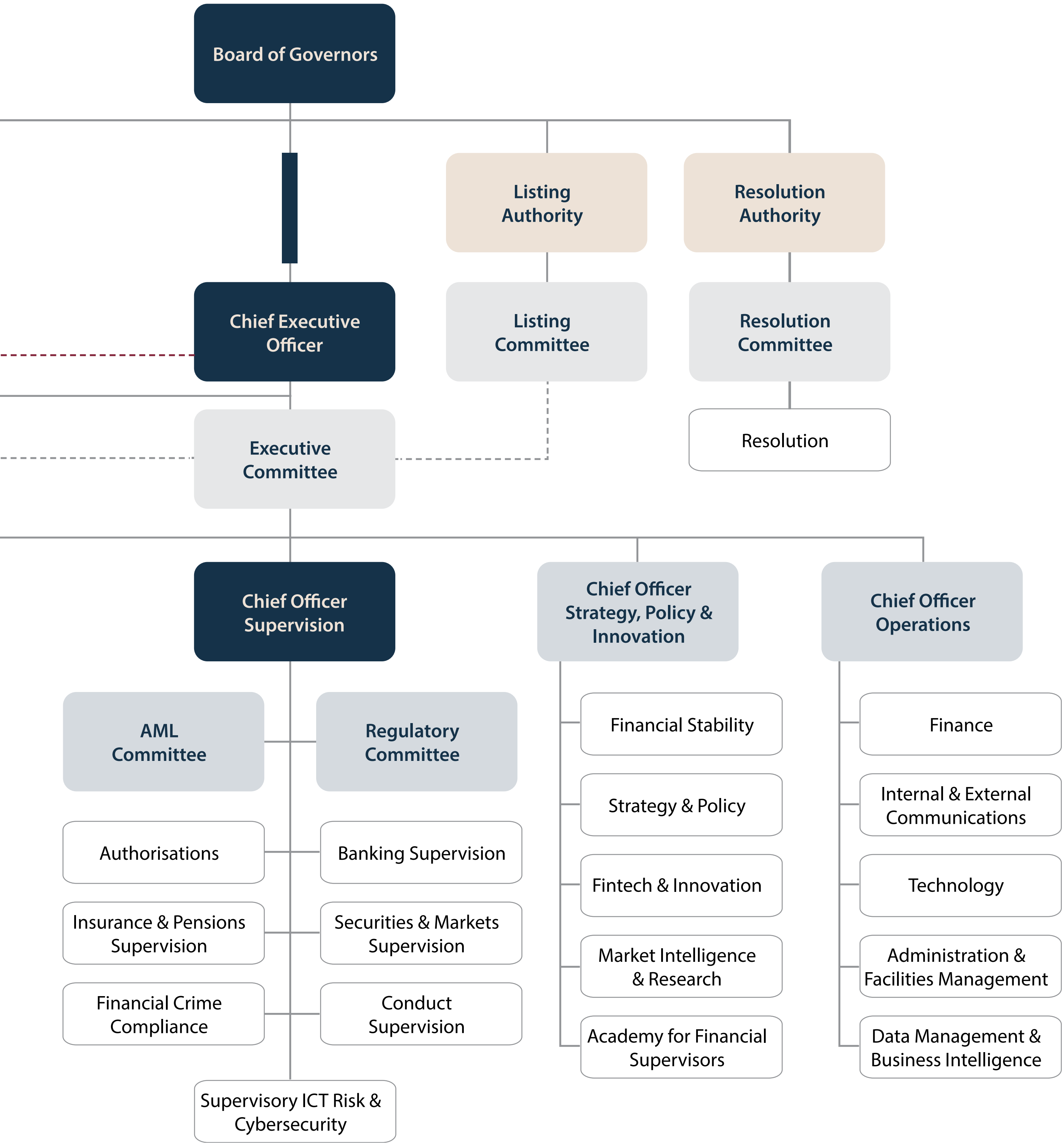
- Ongoing cybersecurity and ICT assessments, and regulatory compliance;
- Supporting the development of industry-specific policy according to regulatory development and market evolution;
- Liaising with all stakeholders at strategic, supervisory and operational level across the whole organisation;
- Driving continuous development of cybersecurity/ICT guidance to licence holders and external ICT auditors;
- Acting as the primary contact at the Authority on cybersecurity and ICT-related incident management across the regulated financial services sectors; and
- Representing the MFSA in various working groups and task forces at local and international level.

The proposed changes will strengthen the MFSA's governance by providing for clear lines of responsibility and accountability of individual directorates in the execution of the Authority's remit. The restructuring will also:

- Boost efficiency, effectiveness and transparency through substantial reduction in bureaucracy and fragmentation in decision-making;
- Ensure that there is more focus on supervision and more robust and holistic supervisory engagement by creating a specific directorate composed of functions that are responsible for all aspects of financial supervision (prudential, conduct and anti-money laundering). This will address the existing supervisory fragmentation, where different aspects of supervision are carried out by separate functions, which may contribute to lack of coordination and the creation of supervisory gaps;
- Ensure a clear line of demarcation between authorisations, supervision and enforcement through the establishment of an Enforcement Decisions Committee;
- Shifting functions, such as policy, strategy, research and rule-making from the functions responsible for supervision to specific directorates and functions which will be established for this purpose; and
- Ensuring a wider focus on AML/CFT and the assessment of supervisory risks through the setting-up of an AML/CFT Committee and a Risk Committee.

New organisational structure




Board of Governors
Listing Authority
Resolution Authority
Chief Executive Officer
Listing Committee
Resolution Committee
Executive Committee
Resolution
Chief Officer Supervision
Chief Officer Strategy, Policy & Innovation
Chief Officer Operations
AML Committee
Regulatory Committee
Authorisations
Banking Supervision
Insurance & Pensions Supervision
Securities & Markets Supervision
Financial Crime Compliance
Conduct Supervision
Supervisory ICT Risk & Cybersecurity
Financial Stability
Strategy & Policy
Fintech & Innovation
Market Intelligence & Research
Academy for Financial Supervisors
Finance
Internal & External Communications
Technology
Administration & Facilities Management
Data Management & Business Intelligence

Revisit and refine the MFSA's risk framework and implement a harmonised risk-based supervisory approach

To further complement the revision of our governance structure, the Authority's Risk Management Policy is being revisited. Revisions in the Risk Management Policy will be designed to provide a structured approach towards:

- Risk identification;
- On-boarding of licence holders;
- Estimation and evaluation of risk;
- Risk tolerance;
- Risk treatment;
- Risk monitoring, recording and reporting; and
- Defining the risk appetite framework.

The revised risk framework will better define our risk appetite, evaluate internal and external risk factors and indicators and set a prioritised risk framework. This will ensure that our risk-based supervisory model and approach is harmonised and applied consistently by all our functions.

Revisit and enhance our internal standards and policies

In 2016, the MFSA initiated a Business Process Re-engineering (BPR) project with the primary aim to redesign and modernise the core business processes of the Authority with a view to enhance the Authority's productivity, efficiency and effectiveness across all levels of the organisation. The BPR project identified a number of projects, some of which have been implemented and others which are in the process of being implemented over the three-year period 2019-2021 and are included within our Strategic Plan.

One of the key projects emanating from the BPR project is the definition of internal standards and policies which will therefore complement the revisions in the governance structure and Authority's risk framework. In view of the extent and nature of licence holders operating within the financial services sector, which vary in complexity and risk, the MFSA will seek to revise its existing standards and policies in order to ensure the harmonisation of standards and policies within the MFSA and ensure a common understanding of regulatory work. This will further complement the revisions to the MFSA's risk management framework.

We will do this by:

- Reviewing and refining existing standards and policies.
- Revising and compiling, where necessary, standards and policies which ensure a harmonised approach to our regulatory and supervisory work and provide a clear direction. This is being done through close collaboration with all functions and by making use of their respective expertise.
- Communicating the revised standards and policies internally to ensure they are adhered to during the performance of our mandate and to ensure there is a common understanding of our risk framework and approach.
- Identifying key indicators for core processes.
- Launching mandatory templates for licence holders taking into account the information required by all functions to ensure a consistent, centralised and harmonised approach and facilitating communication with licence holders.

In our new governance structure we have set up the role of a Chief Officer – Strategy, Policy and Innovation, who will oversee the implementation of the above initiatives.

Engage with firms to enhance the culture and governance of firms

The culture and governance of firms operating within the financial services market is key to ensuring the stability and integrity of the financial market. We evaluate the effectiveness of the firm's governance structure and risk framework to identify risks of misconduct and whether firms have a strategy in place to address, manage and mitigate identified risks. We also focus on the drivers of behaviour within firms to identify potential triggers of misconduct. We provide feedback to licence holders and challenge any drivers of behaviour we may observe.

At the MFSA, we also understand the role of individuals within firms and ensure that senior and key individuals within firms demonstrate the right standards of behaviour and have the required attributes, skills and competencies to carry out the role assigned to them.

Earlier this year we signed a Memorandum of Understanding (MoU) with the Institute of Directors (IoD) based in the UK and their local Chapter, the IoD Malta Branch. The aim of this MoU is to improve Director education and standards, while enhancing corporate governance across Malta-registered companies, NGOs and the public sector.

While the MFSA already published the 'Corporate Governance Manual for Directors of Investment Companies and Collective Investment Schemes', the 'Corporate Governance Guidelines for Public Interest Companies' and the 'Code of Principles of Good Corporate Governance for Listed Entities', the MFSA recognises that there are a range of stakeholders who are not covered by these guidelines. For this purpose, we are working closely with the IoD Malta Branch, with a view to draft a new Malta Corporate Governance Code, providing a set of Corporate Governance principles that are relevant and apply to all entities and which would provide for best practices in this regard, and rules which directors and managers must follow when fulfilling their duties. It is proposed that the Malta Corporate Governance Code includes sections on effective board management, the responsibilities of the entity's board of directors and its chairman both collectively and individually, board meetings – their frequency and how these are minuted, relations with shareholders and clients, conflicts of interests as well as corporate social responsibility, amongst others.

Having minimum standards of good corporate governance which are enforceable would enhance public confidence whilst fostering trust between supervised entities, investors and the general public. We believe that this will positively affect the manner in which licence holders and listed entities are perceived, both domestically and within the international scenario. The MoU between the IoD and the MFSA is aimed at increasing the understanding for the need to educate Directors and to supplement the regulatory framework, which is necessary to facilitate business growth and access to finance whilst contributing to the creation of a more embracing Governance culture.

A number of workshops and seminars are being planned, in collaboration with the IoD, to educate Directors and for the purpose of providing support to licence holders and engage with firms to promote the required standards of good corporate governance and effective organisational cultures.

Financial crime, AML and CFT

Weaknesses in regulated firms' conduct and prudential arrangements increase financial crime risk. The MFSA has an obligation to identify and address money laundering and terrorism financing risks when authorising firms and throughout our supervisory work.

Combatting financial crime, AML and CFT is a key priority area of focus and for this purpose the MFSA has issued an AML and CFT Strategy designed to integrate AML and CFT within the conduct and prudential supervisory activity of the MFSA.

The MFSA's work in relation to AML and CFT is integrated with the work carried out by the FIAU, the Central Bank of Malta (CBM) and the Malta Police Force.

Whilst we collaborate closely with these Authorities as part of the national institutional framework, we work independently from these authorities seeking to ensure that regulated firms implement sufficient AML and CFT controls.

Our AML and CFT supervisory activities are undertaken jointly with or on behalf of the FIAU and are guided by the following supervisory principles:

Focus on entire lifecycle

Authorisations

Firms are only authorised to operate within the financial services market if they demonstrate robust AML and CFT arrangements. Firms seeking authorisation must have a structured AML and CFT framework which is sufficiently transparent to facilitate the review by the MFSA or other competent authorities. Firms' policies, procedures, processes, systems and organisational structure must be appropriately documented. The firms' governance bodies must also maintain appropriate records of meetings held and materials reviewed.

During the authorisation process we assess firms' level of awareness with respect to money laundering and terrorism financing risks and whether they have robust plans to ensure that such risks are adequately monitored, managed and controlled. Our assessment extends to the firms' strategy, business model and potential corporate arrangements to evaluate whether these expose the firm to any potential money laundering or terrorism financing vulnerabilities. We also ensure that firms have designated appropriate resources to prevent, detect and deter financial crime and terrorism financing.

Supervision

Firms shall be continuously monitored throughout their lifecycle. Firms are expected to have AML and CFT arrangements which are embedded within their conduct and prudential arrangements. Firms must also conduct regular testing of their financial crime internal control mechanisms to ensure these are operating effectively. As part of our supervisory work we verify that firms maintain appropriate AML and CFT arrangements. We also assess whether any gaps or weaknesses noted through our supervisory work, even if not related directly to AML and CFT arrangements, make firms more vulnerable to money laundering and terrorism financing risks.

Enforcement

Any concerns are investigated in collaboration with the FIAU and enforcement action is taken where necessary. Enforcement is of prime importance to protect consumers, safeguard market integrity and stability and to promote a competitive market. Enforcement action taken is commensurate to the scale and severity of the breach, the extent of cooperation from the firm under investigation and other relevant factors.

Culture, governance and accountability

Our AML and CFT supervisory activities include the ongoing assessment of firms' business objectives, attitudes, behaviours, compliance and competence of senior management, corporate governance, controls, processes and reporting lines. Any behavioural drivers which increase the risk of misconduct are addressed in a timely manner to prevent misconduct from occurring.

Risk-based approach

We adopt a risk-based approach to supervision whereby the assessment of macro and micro prudential risks, the firms' conduct and the AML/CFT risks pertaining to each firm will determine the extent of supervisory work required. This will ensure that our supervisory work is guided by the nature and scope of firms' business activities and overall risk profile.

Our risk-based approach to supervision aims to minimise the occurrence of breaches to protect consumers whilst maintaining the integrity and stability of the financial services market.

Our risk-based supervisory approach is structured as follows:

Category One – Ongoing supervision of high-risk firms

In line with the risk-based approach to supervision, higher risk firms are subject to ongoing supervision. These include amongst others, firms with large customer bases, firms of strategic importance to the local market, firms with a high-risk business model or customer bases and firms where systems or control weaknesses relating to AML or CFT are identified. Such ongoing supervision includes regular touch points and interactions with the respective firm, on-site visits, as well as the regular provision of relevant information from such firms.

Category Two – Sample reviews of other firms

Firms not considered high-risk are still subject to supervision. Firms are systematically selected on a randomised basis and subject to a review of the highest risk areas pertaining to their business model, which includes the review of AML/CFT arrangements.

Category Three – Event-driven reviews

Event-driven reviews are carried out when specific control weaknesses, instances of misconduct or breaches have occurred. We may become aware of such events either during the course of our supervisory visits, through other regulatory or law enforcement bodies, overseas regulators, whistle-blowers, publicly available information or when firms self-report such events.

Category Four – Thematic reviews

Thematic reviews are carried out periodically across firms operating within a particular sector or in relation to a particular aspect of AML or CFT. The results of such thematic reviews, which normally comprise on-site visits and the collection of data from firms, are then used to issue guidance to firms.

Open communication

We seek to engage directly with all stakeholders to better understand issues and highlight good and poor practices. Whilst supporting the FIAU in promoting good practice we shall help firms achieve compliance and analyse and publish industry trends and lessons learnt.

Integrated approach

At the MFSA all functions work collaboratively to share knowledge, take the right decisions and ensure that we carry out our mandate in an effective and efficient manner. We also collaborate with all competent authorities to combat money laundering and the financing of terrorism.

The establishment of a specialised and dedicated team on Financial Crime Compliance within the conduct and prudential supervisory activities of the MFSA will enhance the effectiveness of our AML/CFT supervision. Through the newly set-up Financial Crime Compliance function we plan to carry out the following activities:

Assist in the implementation of the national AML/CFT Strategy

The MFSA has a pivotal role in ensuring that the national strategy on AML/CFT is implemented with a view to further mitigate money laundering and terrorism financing risks. The national strategy aimed to be implemented by 2020 focuses on seven key initiatives:

1. Establish a national coordination mechanism.
2. Strengthen and clarify the supervisory framework.
3. Enhance internal capabilities of the FIAU.
4. Enhance investigation and prosecution capabilities.
5. Establish an effective asset recovery service.
6. Increase transparency of legal entities and arrangements.
7. Build on the existing international cooperation setup.

Throughout the implementation of the national strategy we will be collaborating and coordinating with other regulatory and legal bodies to assist in its implementation.

Strengthen our coordination and cooperation with international bodies

We are also committed to continue and strengthen our coordination with international bodies in the fight against financial crime. The EU's Fifth Anti-Money Laundering Directive (5th AMLD) brought changes such as the regulation of virtual currency, enhanced AML/CFT precautions for transactions involving high-risk countries, and improvement of central data systems across the Union. Whilst we are well placed to cope with this new directive, we will not be complacent: continued coordination with the international community is vital to establishing the MFSA as a dependable and future-proofed financial services regulator.

We will continue to evolve and enhance our investigative approach to keep supporting the FIAU in its critical work in combatting money laundering and the financing of terrorism. We will strengthen our engagement with the FIAU, implementing improved protocols for cooperation with them, which will be vital to remedying the problems raised.

Enhance our supervisory activities to detect weaknesses, risks and misconduct by regulated firms

We are currently revisiting our existing processes to determine how such processes may be improved, streamlined and automated to ensure the efficient and effective delivery of our mandate. We are also planning to invest in Supervisory Technology and increase our staff capacity to ensure that the Authority is equipped with the required resources to carry out its supervisory tasks in a timely, efficient and effective manner. We have provided regulated firms with guidance on the applicable procedures and controls that should be implemented to ensure that regulated firms have broad, overarching systems with sufficient controls to deter financial crime and potential money laundering and financing of terrorism activities. This is key to safeguard the stability and integrity of the financial market. We plan to step up our supervisory work, with on-site visits conducted to verify that regulated firms have the expected procedures, systems and controls in place and to ensure that regulated firms in their day-to-day activities are adhering to such procedures and controls.

Our AML supervision is based on a risk-based approach, through close collaboration with the FIAU. Our approach is reviewed continuously to ensure that we target those firms and sectors which present the highest risk.

Carry out thematic reviews and issue industry guidance

To further enhance our supervisory approach to AML/CFT, we will also be carrying out thematic reviews to ascertain sector-specific money laundering, bribery and corruption risks and determine how firms are managing and addressing such risks. Such reviews will focus on the adequacy of firms' AML systems and controls, policies and procedures. Following such thematic reviews, guidelines will be issued to provide the industry with good practice measures that firms are encouraged to implement to adequately mitigate risks identified.

Strengthen our regulatory setup to mitigate the risks of financial crime, money laundering and the financing of terrorism

Our vision is to become a leading forward-looking Authority. This is in line with the national strategy to establish Malta as a leading global player in remote gaming, e-money, digital currencies and FinTech innovations. For this purpose we will be striving to strengthen the regulatory setup to mitigate any current and future risks and hence safeguard the stability and integrity of the financial market.

Training and awareness

We will continuously strive to train our personnel to be able to detect risks pertaining to money laundering and the financing of terrorism, amongst others. We will also be focusing on consumer awareness by issuing regular communications to prevent consumers from falling victim to fraudulent scams or products. The use of social media makes consumers more susceptible to fraudulent schemes which are evolving and becoming more sophisticated. We also aim to continue to raise the awareness of financial crime, money laundering and terrorism financing, encouraging debates with stakeholders to determine best practice and address industry developments.

Firms are expected to provide AML and CFT training to all staff. Training should be designed to provide role-specific insight and an understanding of their responsibilities with respect to AML and CFT.

Manage and address the risks inherent to cryptocurrency and blockchain technology

Whilst Malta has taken unprecedented steps in bringing blockchain and crypto technology into the regulatory fold, we understand that such innovations present challenges in the prevention of money laundering and terrorism financing.

Hence, at the MFSA we will be striving to modernise our regulatory approach to be prepared and be a step ahead of industry developments. We will continue to work closely with the FIAU and other national and international authorities, including the newly set-up Malta Digital Innovation Authority (MDIA).

Implementation of Regulatory Technology (RegTech) and Supervisory Technology (SupTech)

As Malta positions itself as a hub of financial services innovation we expect firms to take a technology-driven approach to regulatory compliance. The implementation of RegTech, which includes automation and artificial intelligence (AI), is likely to become widespread in the future as firms strive to ease the administrative burden of complying with regulation. At the MFSA we aim to keep abreast of the latest RegTech developments.

To monitor and manage business risks related to licensed virtual assets and cryptocurrency businesses, the MFSA has invested and is in the process of implementing SupTech intelligence tools. This will better position the MFSA to identify fraud, prevent money laundering and the funding of terrorism and protect consumers, investors and market stakeholders. The implementation of SupTech intelligence tools will provide the MFSA with powerful oversight tools to automate regulatory processes and audit the risk management of virtual asset businesses that are licensed in Malta.

Financial stability and sustainability

The MFSA has a key role in maintaining the financial stability and sustainability of Malta's dynamic financial services sector.

Financial stability

Adverse developments and interlinkages within the financial system can generate and propagate risk within and across national boundaries leading to instability and financial crises. The MFSA has a key role to play in safeguarding the financial system in Malta against these risks. We do this by using macroprudential policy and by working in close collaboration with international institutions.

Macroprudential policy

Macroprudential policy uses prudential tools to limit system-wide financial risk, thereby limiting the incidence of disruptions to the supply of key financial services that can have serious consequences for the real economy. It does this by:

- Identifying and addressing common exposures, risk concentrations, linkages and interdependencies, as well as spill-over risks that may impair the functioning of the financial system; and by
- Deterring the build-up of financial imbalances through the creation of tools and defences that counteract the subsequent downswings and their effects on the economy.

Macroprudential policy is a complement to microprudential policy and it interacts with other types of public policy that have an impact on financial stability.

The effective diagnosis of systemic risks is critical for macroprudential policymaking. The financial and economic crisis highlighted deficiencies in the ability of authorities to identify and measure systemic risk.

Improvements in financial statistics and analysis to assess the build-up of risks in the system are important elements of a stronger macroprudential framework.

The successful development of macroprudential policies requires the:

- Design and collection of better information and data to enhance understanding of the financial market;
- Design of techniques to identify and measure systemic risk;
- Design of an effective macroprudential toolkit of powers and instruments, including the criteria for the choice (incorporating the respective merits of rules versus discretion) and the methods to assess their effectiveness; and the
- Design of appropriate governance arrangements for the exercise of the macroprudential policy powers.

The MFSA has taken important steps in all these areas by working closely with both international and national institutions and building up its internal expertise and capabilities.

International and National Cooperation

European Cooperation

At the European level the ESRB has the responsibility for macroprudential oversight of the EU financial system and the prevention and mitigation of systemic risks. Its remit covers banks, insurers, asset managers, other financial institutions and financial market infrastructures.

In its role the ESRB co-operates with other European supervisory authorities including the EBA, EIOPA and ESMA to share mutually important information and co-ordinate supervisory initiatives.

It includes representatives from the ECB, ESAs, national central banks and supervisory authorities from member states. The CBM and the MFSA are both members of the ESRB.

National Cooperation

At the national level the CBM and the MFSA collaborate through the Joint Financial Stability Board (JFSB), which facilitates cooperation between the relevant authorities in matters impacting financial stability.

The JFSB's responsibilities include policy recommendations to safeguard the stability of the financial system, and identification and assessment of macroprudential instruments that can be used to mitigate or control potential systemic risks to the system.

Within this framework, the MFSA will continue to implement several measures and initiatives aimed at strengthening the financial stability of the local financial market.

Set up a dedicated Financial Stability function

We continuously strive to enhance our own internal capacity and expertise to monitor and mitigate the build-up of potential risks to the financial system.

The establishment of the Financial Stability function within the Strategy, Policy and Innovation Directorate provides us with a dedicated team responsible for market oversight and macroprudential activity.

The Financial Stability function will interface with the microprudential supervisory functions of the Authority at the operational level, ensuring that all relevant information is shared across all areas of regulation and sector-specific supervision. This interaction will ensure that the macroprudential risk outlook is considered in the relevant supervisory risk models and supervisory programmes, while facilitating the flow of qualitative information in the other direction.

We are also committed to develop the necessary expertise within the financial stability team to enable more holistic macroprudential surveillance, with tailored methodology and models that reflect the risk profiles of the respective sectors within the financial market.

Enhance the Financial Stability Monitor

We will continue to monitor threats to financial stability and calibrate our macroprudential toolkit, policy and analytical tools. This will enhance the effectiveness of our oversight of the financial market, intervening (if required) in the market to avoid systemic risk.

We also plan to develop preventative policies to mitigate risks identified and enhance our work on recovery and resolution.

We are currently working on the development of a network model, mapping out the interconnectedness within the banking and the wider financial sector. In addition, we will also be working on enhancing the risk models. This will see the introduction of new risk dashboards and indices for the monitoring of systemic risks.

A number of thematic studies focusing on several areas are also being planned on an ongoing basis. Such studies will include a risk assessment of Banks' exposures to emerging market economies and an assessment of Banks' funding sustainability.

The investment in SupTech, Business Intelligence (BI) and analytical tools will assist us in enhancing our supervisory work. This will contribute to significant improvements in the extent of financial statistics collected and the subsequent analysis of data, which will hence enhance our ability to identify and measure systemic risk.

Enhance communication with the financial market

We will also be organising seminars and issuing publications on a regular basis to provide information on the results of our analysis and thematic studies, commenting on key market data in a timely and efficient manner.

Enhance our engagement with international and national authorities

We are committed to enhance our level of engagement with international and national authorities.

On a local level we will work closely with the CBM on matters impacting financial stability. On an international level we will be working towards enhancing our contribution to the international discussion and in shaping the international agenda. We will also be working towards the agenda and supervisory convergence communicated by the ESAs.

We will actively seek to enhance our participation in European working groups, including amongst others, the ESMA's Committee of Economic and Markets' Analysis (CEMA) task force. The CEMA task force is developing risk indicators based on the Alternative Investment Fund Managers Directive (AIFMD) for EU-Harmonised use by national competent authorities' supervisors. In addition, we will also be contributing to the work of the taskforce developing the European Market Infrastructure Regulation (EMIR) based on EU-Harmonised risk indicators.

The MFSA remains committed to take on board and address recommendations provided by international institutions and authorities aimed at strengthening the level of our supervisory engagement.

Sustainability

Sustainable finance is the provision of finance to investments that take into account environmental, social and governance considerations.

Sustainable finance includes a green finance component that aims to support economic growth whilst:

- reducing pressures on the environment;
- addressing green house gas emissions and tackling pollution; and
- minimising waste and improving efficiency in the use of natural resources.

Sustainable finance also encompasses awareness of and transparency on:

- risks which may have an impact on the sustainability of the financial system; and
- the need to mitigate those risks through appropriate governance.

We are actively monitoring developments in this area, in particular developments at the European level.

Europe's position on sustainability

The EU is supporting the transition to a low-carbon, more resource-efficient and sustainable economy and it sees sustainable finance as a means to building a financial system that supports sustainable growth.

With the 'European Fund for Strategic Investments' and other initiatives, the EU is now trying to attract the required investments to build sustainable finance. However, it recognises that the scale of the investment challenge is beyond the capacity of the public sector alone and that the financial sector has a key role to play in reaching those goals. In particular, the financial sector can:

- re-orient investments towards more sustainable technologies and businesses;
- finance growth in a sustainable manner over the long-term; and
- contribute to the creation of a low-carbon, climate resilient and circular economy.

In 2018 the EC adopted a package of measures on sustainable finance, including:

- A proposal for a regulation on the establishment of a framework to facilitate sustainable investment. This regulation establishes the conditions and the framework to gradually create a unified classification system on what can be considered an environmentally sustainable economic activity. This is a first and essential step in the efforts to channel investments into sustainable activities.
- A proposal for regulation on disclosures relating to sustainable investments and sustainability risks. The regulation will seek to introduce disclosure obligations on how institutional investors and asset managers integrate environmental, social and governance (ESG) factors into their risk processes and investment decision-making.
- A proposal for regulation to amend the benchmark regulation. The proposed amendment will create a new category of benchmarks comprising low-carbon and positive carbon impact benchmarks, which will provide investors with better information on the carbon footprint of their investments.

The EC will either adopt new legislation or revise existing legislation such as MiFID II and the Insurance Distribution Directive to include ESG considerations into the advice that investment firms and insurance distributors offer to individual clients.

It intends to clarify how asset managers, insurance companies, and investment or insurance advisors should integrate sustainability risks and, where relevant, other sustainability factors in the areas of organisational requirements, operating conditions, risk management and target market assessment.

EIOPA and ESMA are producing a joint response to a request from the Commission for consultation on how sustainable finance could be included into the regulations that govern the insurance and the securities and market sectors.

MFSA status on sustainability

The MFSA will consult on these changes before seeking to implement the appropriate EU legislation in line with the requirements of the local market. The new Financial Stability function will also examine the impact of these proposed changes on the financial sector in Malta.

Technology and innovation

FinTech is contributing towards significant changes in the market, encouraging innovation and leading towards a more competitive financial market. Such technological advancement is providing consumers with improved access to customised products and services, whilst providing firms with tools enabling them to derive more cost and operational efficiencies.

Firms have access to more developed analytical tools which help them understand consumer needs and enable them to respond to such needs in a more proactive manner whilst enhancing their service levels and pricing models.

For this purpose, in January 2019, the MFSA published its FinTech Strategy for consultation. The consultation process closed in March 2019, following which a feedback statement summarising the results of the consultation process was issued in May 2019. The FinTech Strategy is designed to support and enable financial service providers to invest in technology and innovation to enhance their product and service offerings to the benefit of the consumer and provide a holistic and long-term approach to catalyse innovation, growth and competition in the financial services market. This Strategic Plan draws on initiatives provided in the FinTech Strategy to establish Malta as an international FinTech hub and which are aimed at supporting and enabling financial services providers to infuse technology in product and service offerings to drive innovation. These initiatives will provide the foundations to enable FinTech start-ups and scale-ups, technology firms and established financial services providers to develop viable FinTech solutions which drive innovation and enhance access to financial products, increase competition, deliver better customer experiences, and ultimately, contribute to the long-term success of the Maltese financial services sector.

In today's technology-driven world we need to ensure that the Authority invests in the required technology to be able to service, regulate and supervise the financial services market in an efficient, effective and proactive manner. In addition to the FinTech Strategy, the MFSA has also designed a Technology Strategy, covering the period 2019-2021, which will enable the MFSA to embrace emerging technologies and enhance its digital presence through the deployment of reliable systems, technologies and services. The Technology Strategy is designed to enable the various Directorates and functions within the Authority to operate in an efficient manner by maximising the value of its information and knowledge and providing the necessary tools to carry out their functions. It provides a disciplined approach and framework designed to enable the MFSA to attain its mission and vision.

This Section provides an overview of the MFSA's FinTech and Technology Strategies.

FinTech Strategy

The MFSA's FinTech Strategy is designed to establish Malta as an international FinTech hub which supports and enables financial services providers to infuse technology in product and service offerings to drive efficiency. The FinTech strategy is based on six key strategic pillars which provide a holistic and long-term approach to catalyse innovation, growth and competition in the financial services sector, whilst safeguarding the interests of consumers and the integrity and stability of the financial market. The six key strategic pillars and the initiatives earmarked to address each respective pillar are the following:

REGULATIONS

This pillar focuses on the need for regulatory and supervisory initiatives to support innovation and improve regulatory efficiency. To address this strategic pillar we plan to:

Enhance our internal capacity

To enhance our internal capacity we will:

- Enhance the staff capacity within the FinTech function and invest in technology to drive the successful execution of the FinTech Strategy;
- Propose clear policy guidance on how FinTech-related activities and services fall within the existing guidelines; and
- Explore whether new forms of policy responses are required for FinTech-related activities.

Create a FinTech regulatory sandbox

Through the creation of a FinTech regulatory sandbox we will provide entities with the space to operate in a controlled but fully functional financial services environment. This will allow innovative services and products to be tested, monitored and enhanced. In creating this regulatory sandbox the MFSA is proposing to:

- Establish a regulatory and supervisory framework within which the sandbox would operate, addressing amongst others the assessment process, the eligibility criteria for entrants and the licensing conditions that will apply; and
- Allocate sufficient resources in terms of capacity, expertise and infrastructure to operationalise the sandbox.

Apply the principle of proportionality in the MFSA's regulatory and supervisory capacity to facilitate entry and growth of small entities and start-ups in the FinTech space

We will apply the principle of proportionality in our regulatory and supervisory capacity to facilitate entry and growth of small entities and start-ups in the FinTech space. In doing so we will:

- Explore applying a risk-based approach which takes into account proportionality of legislative and supervisory actions to risks and materiality of risks; and
- Explore the possibility of implementing appropriate policy response where current regulation may not cater for specific FinTech activities.

Advocate the use of RegTech solutions across firms

Firms will be encouraged to make use of RegTech solutions across their organisation to improve their regulatory processes, enhance their compliance and improve the level of certainty of compliance. The use of RegTech solutions enables the compliance function to be more effective and efficient in the execution of its role by increasing firms' capacity to conduct further data analysis, monitoring changes to the regulatory environment and generating regulatory compliance reports. The use of RegTech solutions will also enhance the decision-making process, assist firms in mitigating potential threats, risks and compliance breaches and reduce the cost of compliance.

Explore viability of Smart Regulations

To explore the viability of Smart Regulations we will work and collaborate with market participants and industry incumbents. Smart Regulations which comprise machine readable rules could potentially lead to more accurate and efficient regulatory reporting by removing the need for human interpretation to the benefit of both the regulator and supervised firms. This will allow supervised firms to implement changes to the regulatory environment in a seamless manner whilst also facilitating automated reporting thus reducing the administrative burden and costs of compliance. During this process we will:

- Consider whether the introduction of machine readable rules should be voluntary or mandatory, taking into account feedback provided during the consultation process;
- Identify areas that should be considered and prioritised;
- Establish timelines for implementation and the transitory periods required;
- Determine how standard-setting should be developed and maintained; and
- Engage with other international regulators to explore the potential of developing a common set of standards to facilitate cross-border applications.

ECOSYSTEM

Through this strategic pillar we will focus on creating a holistic all-encompassing ecosystem which fosters innovation. We intend to address this strategic pillar by:

Setting up and developing a FinTech Innovation Hub

The MFSA will be collaborating with other partners to set up and develop a FinTech Innovation Hub that combines all the elements of the ecosystem as well as other strategic pillars into one platform which stakeholders may use. The FinTech Innovation Hub would be valuable to all partners ranging from the availability of office space, incubation and acceleration spaces, IT infrastructure and shared platforms to develop software. This will be further complemented by networking and the contributions and creativity of participants and industry experts. To implement the FinTech Innovation Hub the MFSA will:

- Initiate dialogue and collaboration with interested parties to establish the necessary operational foundations of the FinTech Innovation Hub and to develop a dedicated physical space which caters for private offices, meeting rooms, communal lounges, co-working spaces, media studios and event space;
- Provide support in engaging with stakeholders interested in setting up FinTech incubation or acceleration programmes within the FinTech Innovation Hub;
- Engage with partners to help define the FinTech infrastructure requirements;
- Set up a desk at the FinTech Innovation Hub to encourage dialogue on potential regulatory implications at an early stage of development of innovative products or business models; and
- Engage regularly with the FinTech community to discuss innovation developments and policy proposals.

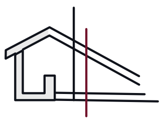
Ensuring continuous collaboration with all relevant stakeholders and enhancing market awareness

To ensure the successful implementation of the FinTech ecosystem we will also collaborate with all relevant stakeholders to develop this Strategy and support the development of a sustainable FinTech sector. We will also work alongside other authorities, government and its respective ministries and agencies as well as academic bodies and institutions to enhance market awareness and work with respective stakeholders to provide education and knowledge to support the use of FinTech solutions.

Facilitating access to finance and resources

We strongly believe that facilitating access to finance and resources is a key element to creating a sustainable FinTech sector. This strategic priority includes providing greater access to traditional financing and the exploration of alternative sources of finance. For this purpose we plan to:

- Encourage financial institutions to become more proactive in offering financing solutions to the FinTech sector whilst supporting private equity;
- Support the set-up of incubator and accelerator programmes for start-ups and scale-ups to build knowledge and enhance the investment attractiveness of such entities;
- Collaborate with FinanceMalta and other bodies to develop programmes and events to attract potential investors, venture capitalists and private equity houses to Malta;
- Run awareness campaigns on the different sources of financing available, as well as the benefits and challenges of each;
- Develop policy frameworks which facilitate the adoption of alternative financing; and
- Establish advisory programmes which educate SMEs on the accessibility of financing programmes, locally and abroad.



ARCHITECTURE

A strategic pillar of FinTech is the provision of an open architecture through which components can be added, upgraded, swapped and integrated with ease. The implementation of an open architecture and the use of Application Programme Interfaces (APIs) is a strategic objective of the MFSA. To achieve this strategic objective we will:

Conduct research, consultation and training

We are planning to commission research and conduct training and awareness activities on how APIs can be commercialised in Finance-as-a-Service models and the implementation of shared platforms. We will also lead in convening working groups to define data, information, security and governance standards supporting these APIs. Through consultation with relevant stakeholders we will explore the need and interest in shared platforms and initiate discussions with interested parties to develop and implement proposed solutions.

Promote collaboration to support the implementation of an open architecture

Incumbent banks and financial institutions will be encouraged to share their APIs openly with approved third parties, including FinTechs. We will also be exploring the possibility to develop and mandate a single API standard for the implementation of the Payment Services Directive (PSD2) by banks to avoid fragmented technical standards in the local market. Moreover we are committed to engage with other international regulators to explore shared platforms and assess the collaborative opportunities to launch such initiatives.

INTERNATIONAL LINKS

The MFSA will seek to build international links across jurisdictions to foster collaboration and trust. To achieve this strategic objective we will:

Establish FinTech Bridges with different jurisdictions

As part of our FinTech Strategy we plan to continue to build our international relationships with the intention of establishing FinTech Bridges with different jurisdictions. Such FinTech Bridges consist of bilateral cooperation agreements which facilitate cross-border FinTech knowledge, adoption and investment, hence reducing the barriers to entry. Such relationships will also contribute to a closer and stronger collaboration with foreign governments and regulators and the industry at large. Such an initiative will enhance access to the local financial services market and help local start-ups to scale up through access to foreign markets.

KNOWLEDGE

A key strategic priority to develop a robust FinTech sector is to attract, develop and retain talent in finance, technology and entrepreneurship. In order to address this strategic priority the MFSA will:

Collaborate with local and foreign universities, institutes and training bodies

We will actively collaborate with academic bodies and institutions to increase the availability and level of FinTech-related programmes and courses aimed towards enhancing the development of a specialised workforce. We also intend to offer internships to students and we will explore the possibility of establishing partnerships with foreign accredited academic bodies and institutes to facilitate student exchanges and secondments.

SECURITY

In order to develop a sustainable and robust FinTech sector it is imperative that FinTechs and incumbents implement comprehensive cybersecurity risk management systems to enhance their resilience to cyber-attacks. For this purpose we will:

Ensure that cybersecurity and information security are at the centre of the development of the FinTech sector

Guidance notes on cybersecurity have been issued following a consultation process, which are to be observed by licence holders.

MFSA's Technology Strategy

Over the past months, the MFSA has implemented a number of technology-driven initiatives to enhance our communication with stakeholders and the efficiency and effectiveness of our operations. Such initiatives include, amongst others, the implementation of a new user-centric website, regular updates to the Licence Holder (LH) portal and the online submission of personal questionnaires (PQs). We have also developed an online platform for the Trusts Ultimate Beneficial Ownership Register (TUBOR), designed to facilitate the electronic submission of beneficial ownership information of trusts. In this regard, we have also provided entitled persons, in terms of law, with access to this Register, to facilitate the collection of ownership information.

In addition to these initiatives and to enable us to carry out our operations effectively we have designed a detailed and holistic Technology Strategy for the three-year period 2019 – 2021, with the aim of establishing the MFSA as a top-tier regulator in terms of technology and information management. The objective of the Technology Strategy is to cater for the digitisation and digitalisation of our operations over a three-year period to enable more effective, harmonised, data-driven and risk-based supervision. Our Technology Strategy is designed to enable the MFSA to be in a better position to carry out its operations, execute decisions, devise strategies, and adhere to statutory and regulatory requirements. Our Technology Strategy is guided by the following principles and strategic elements:

Guiding principles

Empower end-users — Utilise IT infrastructure and systems effectively and efficiently.

Service Orientation — Enhance IT infrastructure and systems to enhance our service offerings.

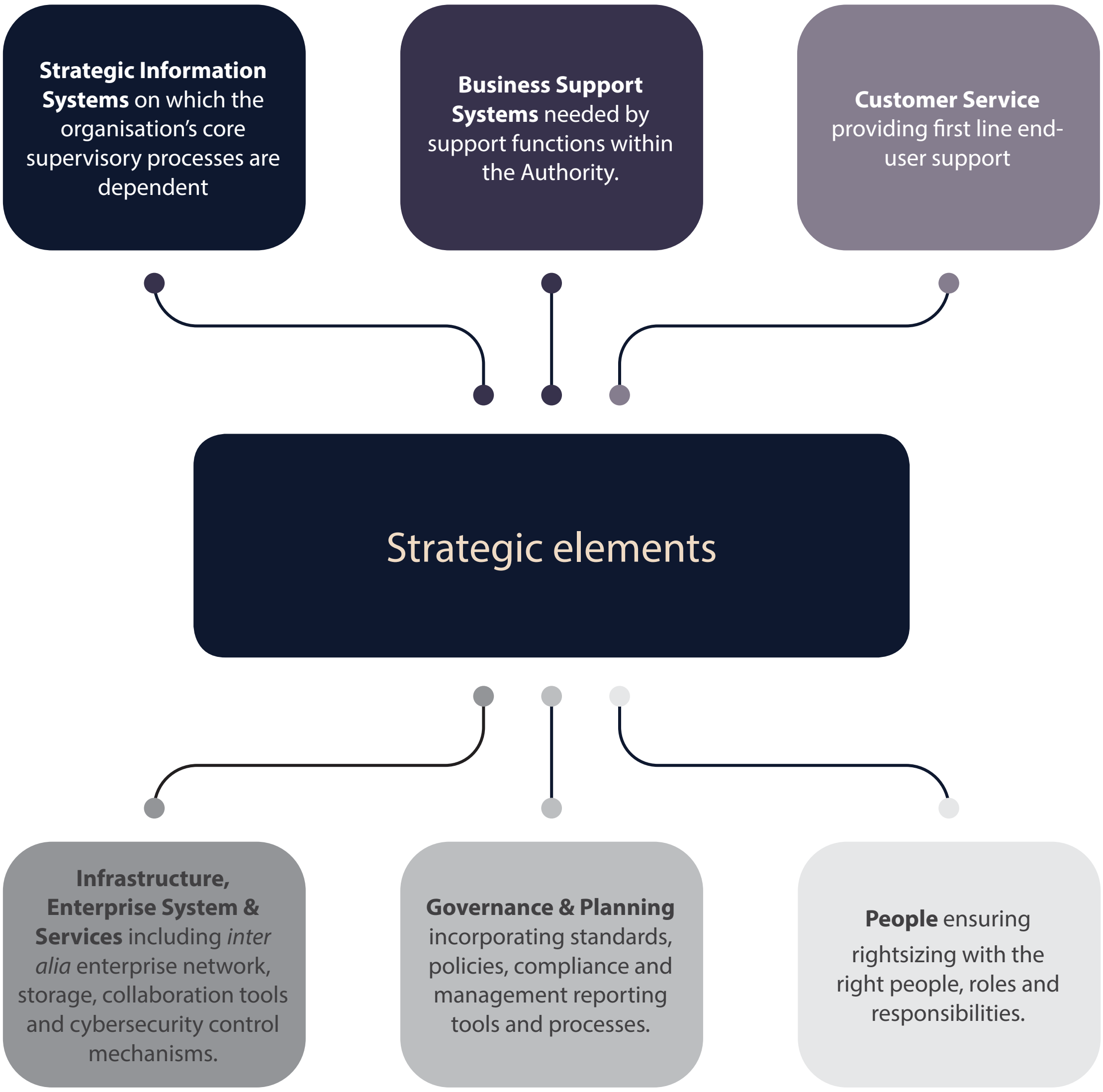
IT Risk Management — Identify, manage and mitigate any IT-related risks.

Adaptability and Agility — IT infrastructure and systems will respond to evolving FinTech, legislations and supervisory requirements.

Quality — Ensure the quality of IT infrastructure, services and systems.

Sustainability — IT infrastructure and services must be sustained at the required service levels.

Innovation — Technology is a strategic asset for innovation in regulation and supervision.



The Technology Strategy involves the strategic investment in information systems, human resources and business workflow orchestration aimed at improving the efficiency of our operations, enhancing communication with all relevant stakeholders within the financial services sector and facilitating operational agility and workforce mobility. To be able to implement our Technology Strategy we need to invest in people.

We aim to enhance our organisational and operational capacity by ensuring that the Authority is equipped with the required human resources within each function, including our Technology function, having the necessary competencies and skills to carry out their roles in an effective and efficient manner. We will also invest in the training and development of our personnel to ensure that their core competencies match the needs of the continuously evolving financial services sector.

Over the three-year period 2019-2021 we plan to implement the following Technology and Information Management plan:

Investment in a Supervisory Cycle Management System (SCMS)

To respond to the digital innovation within the financial services sector we are planning to invest in SupTech to enable us to carry out more in-depth and timely supervision through an integrated risk model that cuts across all supervised sectors. The implementation of SupTech will enable the consolidation of supervisory data and orchestrate all authorisations and supervisory workflows, enhancing workflow management in the process. The implementation of SupTech will also enable us to streamline authorisations processes, automate certain processes, facilitate online regulatory returns and reporting and enhance our harmonised risk-based supervision across all regulated financial services sectors.

Implementation of an Enterprise Data Warehouse, BI layer and Records Management Architecture

To complement the SCMS we also plan to invest in a Data Warehouse which will be used to build a new BI and Analytics framework for the purpose of providing Supervisory BI and reporting tools and to provide a Management Information System (MI). Such an Enterprise Data Warehouse with BI and MI functioning will:

- Provide us with a single repository of data to support the decision-making process whilst offering enhanced analytical tools and information services;
- Facilitate online collaboration;
- Contribute towards increased data quality and integrity;
- Increase operational intelligence;
- Reduce duplication of effort across supervisory areas whilst enhancing the value of information; and

- Provide the appropriate infrastructure and operational framework for the ongoing development of regulatory reporting based on high transactional data, such as the EMIR for exchange derivatives. As FinTech evolves we expect such requirements to grow significantly.

To enhance information governance we will also be investing in a **Records Management System** to handle and manage information created, received, maintained and disposed by the MFSA. Through a well-designed Records Management System that covers the hybrid environment of electronic and physical records we will ensure that records containing personal data or other valuable information are identified, preserved and disposed in a timely manner in accordance with established policies. We will also be setting up a centralised **Records Registry** which will serve as the central data processing point of physical documents within the Authority and will manage and classify the data within the systems.

The benefits expected to be derived from the Data Warehouse, BI, MI and Records Management systems will enable us to carry out our supervisory function in a more efficient and effective manner by improving operational decision-making, facilitating business process automation and modernise our work practices. Such an investment will enable us to reposition the Authority as an early adopter in the implementation of certain initiatives by European Institutions or other bodies. This will help us establish ourselves as a leading forward-looking financial services regulator.

Enhance office productivity and collaboration

We are also planning to transition our IT environment to a hybrid cloud infrastructure using a mix of on-premises private cloud infrastructure and public cloud services. This will enable the MFSA to leverage on the flexibility and scalability offered by public cloud services whilst using its on-premises private cloud infrastructure to host business critical data and information systems contributing towards a more productive and collaborative IT environment.

Investment in Business Support Software

We shall be investing in business support software to assist our support functions at the MFSA to ensure the efficient and effective running of our internal operations. We intend to make more use of social media channels and other electronic channels to improve our communication with stakeholders. We will also be exploring the introduction of **Chatbot Technology** to enhance the MFSA's front-end customer service.

Continue to modernise our Enterprise network and IT infrastructure

Over the past years the MFSA has already invested in upgrading its network infrastructure. Our IT infrastructure is largely ready to cater for the earmarked investments. We will continue however to invest, where needed, to continue to modernise our Enterprise network and IT infrastructure to further support the systems implemented. In the process we will also continue investing in Information Security to mitigate against advanced cybersecurity threats.

Cybersecurity and resilience

One of our key strategic priority areas is to enhance the resilience of supervised firms to cyber-attacks and technology disruptions to reduce the frequency and risks of such threats and disruptions.

The focus of cybersecurity and resilience has added impetus given the digital transformation across the financial services landscape. To address this key strategic priority area we will be strengthening our current framework with respect to cybersecurity, through the following initiatives and measures:

Issuance of guidance notes on cybersecurity

In June 2019, following a consultation process we issued guidance notes on cybersecurity which also embraces the holistic data security environment. These guidance notes are applicable to Professional Investor Funds investing in virtual currencies and all entities regulated under the Virtual Financial Asset (VFA) Rulebooks. However, we are also planning to issue cybersecurity guidelines for all supervised firms.

These guidance notes reflect the Authority's approach towards effective management of risks and the understanding of risk factors directly linked to the supervised firms' operation and should be seen in conjunction with international and national recognised cybersecurity standards, as applicable, and the EU General Data Protection Regulation (GDPR).

Through the issuance of these guidelines and the subsequent implementation by supervised firms we aim to:

Ensure that supervised firms have a designated person responsible for establishing, maintaining and overseeing the internal cybersecurity architecture.

Such a person should be appointed as Security Officer, Chief Security Officer, Chief Information Security Officer (CISO) or any other designation having the same responsibilities as provided in the guidance notes. Such a designated person will ensure, amongst other responsibilities, that the supervised firm promotes a corporate culture focused on an active approach to cybersecurity education and training to be undertaken by the relevant personnel within each firm.

Ensure that each supervised firm establishes a cybersecurity infrastructure and architecture.

The cybersecurity infrastructure and architecture of firms should take into account internationally and nationally recognised standards on cybersecurity and related risk and data management requirements.

Ensure that supervised firms carry out a self-assessment of their cybersecurity infrastructure.

Through the self-assessment of their cybersecurity infrastructure, firms are to ascertain its quality and compliance, by determining the impact and magnitude of cyber-attacks on the supervised firm. The designated person responsible for the internal cybersecurity architecture should carry out a cost benefit analysis of aspects relating to cybersecurity infrastructure, whilst also taking into account the firm's risk appetite and its strengths and weaknesses across the different aspects — people, processes and technology. Internal audits should be carried out at regular intervals or at least annually and shall include a review of all internal documentation pertaining to cybersecurity. Supervised entities dependant on their nature, size and complexity of their business are to appoint an external party to audit their cybersecurity architecture.

Enable firms to manage possible threats effectively.

Through the implementation of the cybersecurity guidelines, firms will be considering various threat scenarios to determine their state of security and enable them to have the awareness to differentiate between normal and irregular activities.

Ensure that supervised firms establish a cybersecurity framework (CSF).

The CSF should include *inter alia*:

- Information and data security roles and responsibilities, including the designation of the CISO;
- Privileged access management policy;
- Sensitive data management policy;
- Threats management policy;
- Security education and training;
- Ongoing monitoring policy;
- Risk assessment, the frequency and extent of which should be determined by the entity;
- Maintenance of audit trails to detect and respond to cybersecurity events;
- Establishment of an incident response and recovery plan;
- Establishment of a business continuity plan (BCP); and
- Establishment of a security policy for third party service providers.

Ensure that the CSF of supervised firms also addresses human resources.

Firms should ensure that all employees are subjected to a comprehensive and effective screening and due diligence process and employment contracts have confidentiality and non-disclosure of information clauses to prevent possible data breaches.

Ensure that supervised firms define and enforce restrictions on software installation.

Firms should define and implement appropriate polices with due consideration to teleworking and mobile devices.

Ensure that cybersecurity requirements are implemented throughout the software development lifecycle.

Firms should develop policies that instil security by design at the software development stage and throughout their ongoing operation.

Ensure that supervised firms establish and maintain data classification systems for both public and private data held.

Firms must implement and maintain data classification systems that define how data is stored and archived with the corresponding access rights and security restrictions in place.

Ensure that supervised firms conduct an in-depth threat analysis.

Firms through the designated person (CISO or equivalent) should conduct an in-depth threat analysis capturing natural, insider, privacy, environmental, macroeconomic and other threats. All identified threats should be subject to a probability-impact analysis and measures should be taken to mitigate the identified threats. Threats related to the existence and operation within the digital space need to be effectively managed and hence the Information Security Policy should address:

- Threat agents;
- Malware, phishing, DDoS attacks;
- Hacking of a website or application;
- Destruction, modification or disclosure of data;
- Mixing test and production data;
- Protocol design errors;
- Disruption of critical infrastructure of other parties;
- Disruption of critical industry-wide services; and
- Other cyber-attacks.

Ensure that supervised firms provide adequate financial resources to provide training and awareness sessions to their staff.

Training and awareness provided by licence holders to their staff should address the anticipated effects of potential cyber threats and data breaches and ensure that all staff are aware of the supervised firms' CSF, BCP and recovery plan.

Ensure that supervised firms implement and comply with the guidelines provided

Through the establishment of the ICT Risk & Cybersecurity function within the Supervisory Directorate we will be monitoring the progress of supervised firms in implementing and adhering to cybersecurity policies. This will be carried out by the review of policies and procedures implemented, complemented by on-site visits, guided by our risk-based supervisory approach. We aim to ensure that all licence holders are resilient to cyber threats and technological disruption to prevent data breaches, the loss of data and to safeguard the availability and integrity of data.

Organisational and operational capacity

Malta is a service-based economy and its human resources are its most valuable asset. Over the past decade, Malta has experienced significant economic growth. Statistics provided by the IMF show that Malta's real GDP growth has consistently outperformed member states across the EU and the Euro Area.

This growth is also evident in the labour market, where in recent years Malta has been approaching full employment. Against this backdrop, coupled by the specialised skills and competencies required to work in the financial services sector, finding the required resources with the required knowledge and skill sets is becoming increasingly challenging.

For this purpose, the organisational and operational capacity of the MFSA and supervised firms operating within the financial services sector is one of our strategic priorities as we seek to find strategic solutions to address the gaps in the labour market.

Addressing the gaps in the labour market

In order to ensure that economic growth is sustainable we are focusing on initiatives aimed at increasing the availability of human resources with the required skill sets and competencies required by the financial services market. These initiatives include:

Reforming the Educational Consultative Council

The remit of the MFSA's Educational Consultative Council (ECC) is to:

- identify gaps in existing skills required by the financial services sector;
- provide support in relation to training programmes offered primarily by its members and other entities within the finance industry;
- promote careers within the financial services sector; and
- maintain a website to provide up-to-date information in this regard.

We plan to reform the ECC, whereby the ECC will be tasked with addressing the education gap at all levels, including, but not limited to, the available qualifications in financial services and the identification of new areas where education is necessary, particularly with regard to the areas of innovation, such as FinTech. For this purpose, the ECC shall be collaborating with the University of Malta (UoM) and other educational institutions to develop existing or new educational programmes which cater for the specific and evolving requirements of the financial services sector. In addition, surveys are being planned with supervised firms to get a comprehensive understanding of the existing or potential skills gaps within the financial services market.

The Formation of an Academy for Financial Supervisors

Our revised governance and organisational structure provides for the establishment of an 'Academy for Financial Supervisors'. The Academy will be set up to identify the training needs pertaining to the financial services industry and provide a yearly curriculum to train young and upcoming financial services supervisors. The Academy will also be set up to ensure that experienced supervisors are given the opportunity to grow further and update their knowledge in this field, particularly with regard to techniques in financial supervision and FinTech.

Increasing awareness and interest in taking up careers in financial services

According to the labour force survey issued by the National Statistics Office (NSO) for the third quarter of 2018, 30.6% of the employed population have a tertiary education. Hence, the shortage of human resources with the required skill sets can be partially addressed by more informative and educational campaigns aimed at encouraging students to further their studies more specifically in the financial services sector. For this purpose, through the ECC we plan to conduct school visits, particularly in the secondary level, to provide more information to students on the various careers that may be pursued within the financial services sector to entice students to further their studies and acquire the required knowledge and competencies.

We also plan to continue offering internships at the MFSA to students seeking a career in financial services. This will be complemented by job exposure programmes, such as the Student Placement Programme (SPP), whereby supervised firms will be invited to take part in this scheme. Through the SPP we will be supporting employers in the financial services sector take on board students from the UoM and the Malta College of Arts, Science and Technology (MCAST), reimbursing, in the process, 50% of the salary costs for such student placements. The SPP is being piloted in 2019 and is expected to be fully launched in 2020. **Internships** and **job exposure programmes** are aimed at providing students with valuable working experience, enabling them to explore alternative career paths, develop and refine their confidence and skills and allow them to network with financial services professionals.

Additionally, we plan to draw on our strong collaborative ties with international regulatory bodies to offer **secondments** to local employees enabling them to broaden their experience and further promote a career in financial services. Such secondment programmes will be designed to create an opportunity for foreign employees to work in the local financial services market, aimed at attracting foreign employees with the required skills and competencies to relocate to Malta. Such internships, job exposure programmes and secondment opportunities will not only benefit students and employees, who will be provided with opportunities to develop their skills and knowledge, but will also benefit the MFSA and licence holders by increasing the pool of human resources with the required skill sets, knowledge and competencies required by the financial services sector.

Enhancing the MFSA's internal capabilities and operational efficiency

To complement the investment planned in technology, more specifically the implementation of SupTech solutions, our BPR project is focusing on remodelling internal processes, adjusting remits, revising the MFSA's delegation framework and enhancing workflow, data and document management to facilitate cross-function collaboration and internal communication. The primary aim of the BPR project is to enhance the efficacy of the Authority's internal operations enabling it to carry out its mandate in a more proactive, efficient and effective manner to the benefit of all stakeholders and the local financial market at large. Whilst investing in technology is key to better equip the Authority with the necessary tools and systems, our personnel remain crucial for the MFSA to carry out its functions.

Throughout the BPR project we are seeking to identify how our internal processes may be enhanced through the deployment of technology and also the more efficient deployment of tasks amongst our personnel across all spans and layers. We have devised a People and Culture Strategy for the years 2019-2021 which complements the BPR project and focuses on addressing our recruitment requirements and the retention of our existing employees. Our People and Culture Strategy together with the BPR project will focus on identifying the extent of resources needed, at what level and the skill sets and competencies required.

Following this analysis, we will ensure that the Authority is equipped with the required human resources, having the necessary competencies and skills, to ensure we carry out our mandate in an efficient and effective manner and to preserve the effectiveness and operational independence of the Authority, especially in view of the constantly evolving financial services sector and the drive to harness technology, blockchain and digital currency. The survey carried out with licence holders in March 2019, also reiterated the need for the MFSA to recruit more personnel with the required experience, skills and competencies, with 71% of the respondents noting that the MFSA does not currently have sufficient personnel to carry out its mandate. In addition, 63% of the respondents believe that staff turnover is hindering their relationship with the MFSA.

Recruiting personnel having the required skills and competencies, as well as the retention of existing personnel, will be challenging due to the high demand for such resources, hence the above initiatives are aimed at addressing gaps and shortages in the labour market. In addition we are planning a number of initiatives and measures earmarked to enhance our supervisory capacity through the consolidation of our risk-based supervisory approach and through more frequent and timely supervisory action. To enhance the internal capabilities and operational capacity of the MFSA we will be:

Reviewing existing processes, the assignment of tasks and the delegation framework to enhance our efficiency and effectiveness in delivering our mandate

As part of the BPR project we are in the process of revisiting existing processes with a view to improve and streamline our operations. We are also exploring how processes may be automated to further contribute to the efficacy of our operations.

As part of our review we will also be carrying out a critical analysis of the responsibilities assigned to our employees and the delegation framework applied.

Following this analysis we will be redesigning and documenting workflows which take into account the analysis of existing processes as well as the changes expected through the implementation of SupTech, BI tools and the Data Warehouse, catering for a clear cascade of responsibilities. We will also ensure that any revisions to the delegation framework continue to be clearly communicated and applied consistently throughout the Authority.

Ensure that the Authority is equipped with the right size of human resources to be able to carry out its operations in an efficient and effective manner

The review of existing workflows is also aimed at determining the amount of human resources, as well as the respective skills, competencies and experience required. Resource requirements will be determined by taking into account the volume of licence holders, the complexity and diversity of the financial services sector, as well as the earmarked investment in SupTech. Our aim is to deploy resources in the most cost-efficient manner, which optimises the Authority's effectiveness, efficiency and performance, to the benefit of supervised firms, consumers and the market at large.

We will also ensure the continuous training and development of personnel to ensure that our employees have the required skill sets and core competencies to carry out their roles and meet the requirements of the constantly evolving financial services sector. We will also develop and implement actions to further promote and instil our core values amongst our employees.

Enhance cross-function collaboration

The investment in SupTech and the implementation of a Data Warehouse complemented by our commitment to move away from a paper-driven organisation will facilitate cross-function collaboration to better enable the MFSA to identify and address prudential and supervisory issues, concerns and risks.

Establish the MFSA as an employer of choice enhancing our culture of diversity and inclusivity

The MFSA will not be able to carry out its functions and achieve its mission and vision without the work, commitment and dedication of its employees. We embrace a culture of diversity and inclusivity whilst we also ensure equality. In 2017, following a thorough evaluation of our organisational structure, policies and procedures, the National Commission for the Promotion of Equality (NCPE) awarded us with the Equality Mark Certification. Our aim is to establish the MFSA as an employer of choice by being proactive and having an employee-centric attitude.

We will continue to promote diversity and inclusion as part of our work culture driven by our core values of integrity, trustworthiness, dependability, independence and excellence. This will better position us to cater for the diversity of our customer base.

Career development programmes and performance management systems will be reviewed and enhanced to provide our employees with motivation and clear career paths enabling us to retain existing personnel. We are currently exploring the possibility of extending the current study support programmes offered to employees, to include also PhD studies, as we strive to further support our employees in their professional development.

Enhancing our communication with prospective and existing licence holders

The survey carried out in March 2019 with licence holders showed that whilst 62% of the respondents deem that the level of interaction between the MFSA and licence holders is appropriate, concerns were expressed by licence holders as to the timeliness around the processing of applications, the consultation process and their overall experience in dealing with the MFSA.

One of the questions in the licence holder survey focused on MFSA's firm authorisation process. Whilst 88% of the respondents to this question noted that they are generally satisfied with the communication of the application requirements and the guidance and feedback provided by the MFSA during the authorisation process, only 58% of the respondents to this question are satisfied with the timeliness at which applications are processed.

Licence holders were also asked to rate MFSA's openness to feedback and the effectiveness of the consultation process. On average, only 36% of licence holders who responded to this question are satisfied with MFSA's openness to feedback, the extent to which firms are involved in the consultation process, the time period allowed for consultation and the weight given to feedback received. Moreover, licence holders were asked to rate their overall experience in dealing with the MFSA. 35% of the respondents to this question are satisfied, whilst 19% of the respondents expressed their dissatisfaction. The remaining 46% are neither satisfied nor dissatisfied in their overall experience in dealing with the MFSA.

Effective communication between the regulator and the licence holders is key to ensuring the proper functioning of the financial markets. For this purpose, as part of our Strategic Plan we intend on implementing the following measures which are aimed at enhancing our operational efficiency:

Enhance the level of transparency and communication during the Authorisation process

We will work to enhance the transparency of the application process. As a first step we will be recruiting a front-end relationship manager within the Authorisations function, who will provide applicants with a contact point on all matters pertaining to the authorisation process. This will provide more timely feedback to applicants on the status of their application. With the planned investment in technology we also aim to enable applicants to view the status of applications through designated online portals.

For the authorisation of new licence holders, or existing licence holders applying for a new licence, we intend to set and communicate clear timeframes for the authorisation process, provided that all information required is duly submitted by the applicant. For this purpose, we will continue to issue guidance on the information and documents that are to be submitted during the application process.

Enhance communication with licence holders

In order to further enhance our openness to interact, assist and communicate with licence holders we are also planning to assign designated account managers within the Authority for each licence holder across all sectors. This will provide licensed firms with one central contact within the Authority, and hence facilitate communication.

We are exploring the possibility of introducing a Live-Chat service through our website to provide licence holders and all relevant stakeholders with real-time interaction and hence enhance our responsiveness and efficiency of communication.

As part of our Strategic Plan, taking on board recommendations put forward by some licence holders, we will be refining and enhancing our consultation process to ensure that we obtain feedback and insights from licence holders before the issuance of consultation documents and ensure that licence holders are given sufficient time to provide feedback during the consultation process. In addition, we plan on issuing more sector-specific newsletters and organising conferences on a regular basis to communicate regulatory updates and discuss market developments.

Conduct supervision

Our strategic objective is to increase public value by ensuring that the interests of consumers of financial services are protected and are placed at the centre of the operation of regulated firms.

Consumers of financial services or products should be able to engage with the financial market with confidence and trust. Whilst ensuring that consumers of financial services enjoy the benefits of a competitive market and the benefits expected from technology and innovation, we will strive to ensure that regulated firms keep consumers well-informed of the nature, performance, charges and risks of the financial products offered. Consumers need to be at the heart of regulated firms' business model ensuring that consumers are treated in a fair, equitable and transparent manner.

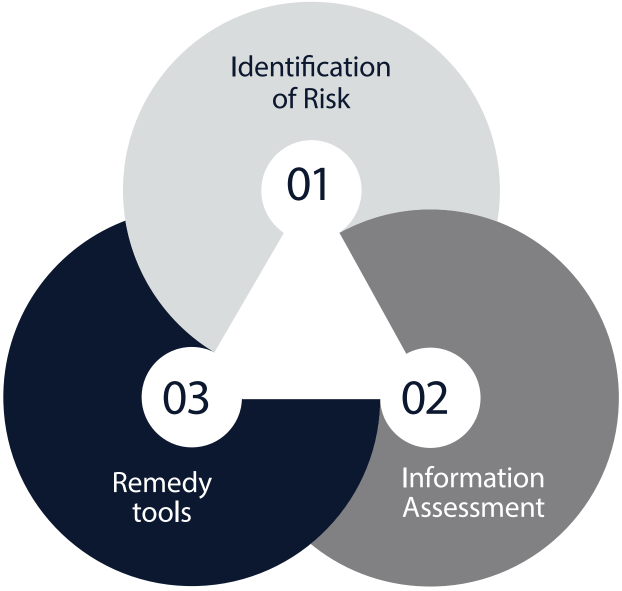
Our supervisory objectives with respect to the supervision of the conduct of business of regulated firms are the following:

(i) the establishment and maintenance of a regulatory framework that secures appropriate consumer protection in financial services;
(ii) a pre-emptive supervisory regime which addresses potential or emerging risks for financial consumers; and
(iii) the strengthening of the responsibilities of regulated firms in treating consumers fairly.

Further to the above, the Conduct of Business Rulebook which currently applies to insurance undertakings, insurance intermediaries and investment firms will be extended to contain conduct of business rules applicable to credit institutions. Furthermore, the Authority will also be issuing conduct rules aimed at credit institutions and financial institutions offering equity release financial products.

The financial services sector offers a complex, extensive and diverse spectrum of products and services. Our aim is to ensure that our work results in consumers being offered better services and products by regulated firms, addressing those areas posing the greatest risk to consumers. The investment in SupTech coupled with the planned increase in our human resources are designed to enhance our operational efficiency and capacity which will enable us to safeguard the interests of consumers in a more timely and efficient manner.

Our supervisory approach is built on a risk-based approach and our internal supervision framework is used to shape and prioritise our supervisory work.



In order to ensure that we achieve our supervisory objectives we plan to take measures to enhance our existing supervisory framework. More specifically we plan to:

Enhance our effectiveness in identifying instances of harm or risks of potential harm

Through our supervisory activity we will continue to conduct regular reviews of the financial services and products offered by regulated firms, as well as the pricing practices applied, so as to ensure that regulated firms always operate in the best interest of the consumers. To enhance the confidence of consumers in our ability to identify, diagnose and address any instances of harm or potential harm we need to ensure that we collect sufficient information to enable us to understand the wide array of financial services and products offered to consumers. For this purpose, we plan to gather information by making use of the following sources of information:

- Routine supervisory and enforcement activity with regulated firms;
- Mystery shopping;
- The performance of thematic reviews on risk areas identified;
- Market research, studies and surveys;
- Complaints received from consumers;
- Social media listening;
- Third party data and information; and
- Data submitted by the regulated firms in terms of their reporting obligations.

We plan to invest in the required human resources to enable us to step up our supervisory work on the products and services offered by regulated firms, as well as the manner in which regulated firms are operating. The scope of such reviews will be to ensure that financial services or products are offered to consumers in a manner which is clear, fair and transparent.

Our routine supervisory and enforcement activity with regulated firms will help us identify, in a timely manner, any changes in the environment and respond in a more proactive manner to such changes. We also plan on carrying out regular thematic reviews and mystery shopping to identify any weaknesses in the dealings of regulated firms with their clients and to ensure we have a better understanding of the financial services and products offered to consumers. The subject of thematic reviews will include (i) an assessment of regulated firms with respect to their product oversight and governance obligations to ensure that the products they offer are sound and that these are distributed to the clients for which they were originally intended (the target market) and (ii) an examination of the costs and charges reported by a sample of regulated firms and compare them to the applicable regulatory requirements.

We plan on carrying out regular research, studies and surveys to gather more information on potential risks which may lead to harm to consumers. We are planning to commission surveys with consumers of financial services to capture their feedback and views on the financial market and the role of the Authority. Such surveys will be designed to address any concerns which consumers may have on the financial market, the conduct of regulated firms and their understanding of the products and services offered. We will use those surveys to evaluate the feedback of consumers on the effectiveness of the MFSA in protecting their interests and to better understand what consumers expect from the MFSA. Such surveys will be carried out periodically, at least once a year, to be able to gauge the effectiveness of measures taken by us to enhance consumer protection and identify areas for improvement.

In this context, we will be carrying out research in relation to Motor Insurance focusing on consumers' attitudes and behaviours. This research is intended to assist the MFSA in enhancing its insight into the consumers' understanding of the identity and location of their motor insurer, establish the drivers of consumers' purchase decisions and assess consumer satisfaction on the service received. This research will be based on interviews with a representative sample of consumers holding a motor insurance policy and who have had experience of dealing with insurance intermediaries.

Similar market research, consumer awareness and educational campaigns are planned on an ongoing basis to safeguard consumer interests. Such research and campaigns are planned to address those products and areas posing the greatest risk to consumers.

We will also be reviewing the disclosure documentation which regulated firms are required to provide to their clients on a pre-contractual basis, such as the Key Information Documents (KIDs) and the Insurance Product Information Documents (IPIDs) with a view to ensure that these are drafted in the format required and that any projections contained therein are calculated according to the methods established in the relevant legislation.

As part of our ongoing supervision, we will continue to monitor the promotional material issued by regulated firms in order to ensure that these are fair, clear and not misleading and that the necessary disclosures are being made.

In addition, we will also make use of social media listening tools and any relevant third party data to ensure we obtain a comprehensive understanding of the consumer landscape within the financial services sector.

We will also be focusing on equity release financial products, expected to come into force later in 2019, providing consumers with the necessary disclosures whilst also ensuring that supervised firms offering such products comply with the regulations to be issued in due course.

Our supervisory work will focus on ensuring that supervised firms comply with the conduct of business obligations emanating from MiFID II and the Insurance Distribution Directive. Through our supervisory arm we aim to monitor, detect and manage misconduct by firms in a timely manner and mitigate the detrimental effects of any abuse on the financial markets, stepping up our enforcement action against misconduct by supervised firms.

We will also be implementing the National Product Intervention Measures taken during 2019 with respect to investment firms providing services in relation to binary options and contracts for differences (CFDs). In this regard, the relevant measures were transposed in the Conduct of Business Rulebook.

We are also transposing, into the Conduct of Business Rulebook, the current policy for firms distributing or intending to distribute CFDs and/or rolling spot foreign exchange contracts under the MiFID regime.

Enhancing consumer awareness

Protecting and safeguarding the interests of consumers is one of our key strategic objectives. For this purpose, a number of educational and awareness campaigns are planned on an annual basis to enhance consumer confidence in the financial markets. Consumer education and awareness campaigns on payment accounts with basic features, the Fee Information Document and Statement of Fees were carried out.

In addition, we will also be undertaking a consumer awareness campaign with respect to the IPID.

Further campaigns will be carried out on an ongoing basis covering several topics and catering for the diverse needs of consumers. Such educational and awareness campaigns are planned to address those areas where we feel the need to raise more consumer awareness.

Ensure the timely analysis and diagnosis of information collected

Besides stepping up our efforts to collect more comprehensive information from multiple sources on the financial market and instances of misconduct or potential risks, which may lead to harm, we will also strive to enhance our ability to diagnose the information collected to determine the cause, extent of harm and the impact of risks identified. Through the implementation of SupTech we will have the necessary tools to analyse the data collected, share information internally in an efficient manner and enhance our understanding of any issues noted, enabling us to be more proactive in our approach to address any risks identified. The conduct of market research, studies and consumer surveys will assist us in determining whether the financial market is functioning in a proper manner, safeguarding the interests of consumers in the process. This will be further complemented by the performance of more regular and timely thematic reviews on any current or emerging risks identified.

In addition to the above, we will also continue to collect data directly from regulated firms relating to retail trends, complaints, passporting activities, retail risk indicators and products being offered to clients. This data is analysed to identify any emerging trends which need to be better regulated in order to avoid consumer detriment. We will also be analysing products offered by regulated firms to retail clients in order to be in a position to take pre-emptive action should we identify that certain products are not being provided to the right target market established for such products.

Such measures will ensure we capture and diagnose in a timely manner information on the risks inherent to the financial market and any risks resulting from the conduct of firms and the financial services and products offered.

The comprehensive collection of relevant data from multiple sources and the timely analysis of such data will enable us to be more proactive in taking measures to mitigate actual harms identified and to take pre-emptive measures to address risks which may act as drivers to harm. We will act to safeguard and protect the interests of consumers in a manner which is within the scope of our regulatory remit.

The implementation of SupTech and the recruitment of sufficient personnel within the Authority with the required skills and competencies will enhance our organisational and operational capacity enabling us to conduct more timely supervisory reviews of firms.

Any issues relating to specific firms will be addressed in a proactive and timely manner, to address any misconduct or identified risks and to deter future misconduct.

Our aim is to ensure an appropriate and proportionate level of protection and redress for consumers of financial services.

If through thematic reviews, market research, studies and surveys, amongst other sources of information, we establish an issue which is impacting the market at large or is systematic, we may implement new or revise existing rules and may also intervene in the market by, for example, restricting or prohibiting the marketing, distribution and sale of certain products or services. Based on the information collected and the analysis of such data we shall continue to provide consumers with timely warnings on certain markets, products and services and warn consumers of any activity carried out by unauthorised firms, which may pose a risk to consumers. Through our Supervisory and Enforcement functions we will also take action against regulated firms who are found to be carrying out practices which may bring harm to consumers and which are not in line with the applicable legal and regulatory requirements.

We have a number of tools in place which enable us to take remedial action and address any instances of misconduct or risks which may lead to consumer harm.

At authorisation stage, we understand the governance, risk framework and culture of firms and focus on identifying and addressing any drivers of behaviour which may trigger misconduct. For firms to be authorised we need to have comfort that there will be no impediment on our ability to carry out our supervisory activity. In addition, firms must demonstrate that they have an appropriate governance and risk framework in place and an appropriate business model supported with the required financial and non-financial resources. We also seek to obtain a clear understanding of the role of relevant individuals within firms and that such individuals meet the minimum standards of behaviour. Individuals appointed in key roles are assessed to ensure that they meet a minimum set of criteria established in our Fit and Proper assessments. Firms and relevant individuals must also be able to demonstrate that the minimum standards will continue to be met following authorisation and for as long as they are authorised.

Once a firm is authorised we will aim to safeguard consumer interests by monitoring and engaging with firms, guided by our risk-based supervisory approach. The extent of supervision is dependent on the risk pertaining to the market within which the firm operates, the products or services offered, the size and impact of the firm to the financial market and any residual risks identified. Enforcement action will be taken in a proportionate manner against firms which do not abide by their legal and regulatory requirements. Enforcement action is taken to prevent or minimise harm to consumers and the financial market and to act as a deterrent for future misconduct.

Ensure regulated firms act in the best interest of consumers

Firms are responsible for ensuring that they always act in the best interest of consumers. Consumers must be treated in a fair manner and firms must refrain from misleading consumers or exploiting behavioral traits of consumers.

As part of our Strategic Plan we plan to engage with firms, drawing also on feedback obtained from our market studies, research, consumer surveys and thematic reviews and provide guidance to firms on how to ensure that consumer interests are protected.

Chapter 4

Sector-specific priorities

Credit and Financial Institutions

The banking sector contributes significantly to the local economy and the proper functioning of the banking system is key to maintaining a stable and flourishing financial system.

Our supervisory priorities laid out in this Strategic Plan are aligned to the supervisory priorities of the ECB and the EBA. Each year our supervisory priorities will be reviewed and aligned to the supervisory priorities communicated by the ECB and EBA.

The banking sector faces a number of challenges stemming from a wide array of risk drivers. The stock of NPLs, the threat of cyber-attacks, technological disruptions, the low interest rate environment, adherence to new and existing regulations and instances of misconduct are just a few of the key drivers of banking sector risks.

Malta's growing economy, coupled with an influx of foreign investment, has led to a growing demand on banks to support and service new and emerging sectors. Whilst this provides growth opportunities for banks willing to service such foreign investment and sectors, Maltese banks, similar to banks operating in other jurisdictions, are reviewing their business models and de-risking their portfolios by avoiding or limiting their exposure to certain sectors of the economy. As a result, foreign investors, especially those operating in those sectors, are facing difficulties in setting up bank accounts with Maltese licensed institutions, thus potentially creating a barrier to entry.

In addition, another challenge facing the local banking sector is the lack of correspondent banks, resulting from the drive of international banks to cut correspondent banking ties with their respondent banks, with a view to balance their compliance costs against the returns generated from this activity.

Another challenge is the limited number of custody banks in Malta, which has a direct effect on the local fund industry. The custody industry, similar to the banking sector, is experiencing consolidation, making it even more challenging to attract medium-sized custodians to Malta. Whilst taking into account the challenges currently facing the local banking sector, and also taking into account the remit of the Authority, the following priorities are being earmarked to cater for credit and financial institutions:

Carry out an assessment of MFSA's supervisory review and evaluation process (SREP)

We will be carrying out a diagnostic analysis of Banking Supervision to assess its function, in the context of its institutional and macroeconomic setting and priorities, and the evolving Maltese financial market. The aim of this analysis is to further strengthen our supervisory framework. The analysis will focus on:

- The supervisory framework applied;
- Current processes and practices implemented;
- The organisational structure and human capital within the function; and
- SupTech applied in the spheres of data collection and analytics which facilitates digitisation and enhances the efficiency of supervision.

Carry out an analysis of the challenges facing the banking sector and determine remediation action to address these challenges

We will also be embarking on a study to consolidate our understanding of the root-causes of challenges facing the banking sector in Malta, in the context of the National Strategic Plan of the Maltese economy. Following this study, we will issue a consultation paper proposing possible cooperation and intermediation solutions between the financial and non-financial sectors to enhance the future stability of the financial market.

Carry out an assessment of the future of banking in Malta and the impact of emerging technologies

An assessment of the impact of emerging technologies on the Banks' business model and the potential scenarios of the future of banking services in Malta will be carried out. Following this assessment, a consultation paper will be issued for the purpose of obtaining feedback on how FinTechs complement and compete with traditional Banks and the potential benefits and risks from increased competition between FinTechs and traditional Banks. The consultation paper will also propose regulatory and supervisory models for FinTechs to serve the economy in a controlled and risk-prudent environment.

Ensure the proper management of credit risk

Credit plays an important economic function and is largely beneficial to firms operating across a wide array of industries and consumers. Instances of misconduct by supervised firms create significant harm to consumers. The proper management of credit risk is essential to safeguard the stability of the financial market and will remain our supervisory priority over the coming years. Our aim is to ensure that supervised firms exercise proper conduct when assessing the creditworthiness of clients. In this regard, following a consultation process, we plan to issue guidance on our expectations of supervised firms when carrying out creditworthiness assessments. Through dedicated on-site visits we intend to continue to review lending practices and standards to determine their effectiveness in mitigating potential risks.

We will continue to ensure that supervised firms follow the guidance issued by the ECB on NPLs, and any subsequent updates or follow-ups issued by the ECB. Through our supervisory work we will focus on reviewing banks' NPL strategies and review the timeliness of NPL provisioning and write offs.

As commented by the IMF, following the conclusion of the Article IV consultation with Malta, the banking sector is well capitalised, liquid and profitable. However the property boom, which the local economy has experienced over the past few years, creates certain risks that need to be managed effectively by supervised entities. Property prices in Malta have been increasing at a higher rate than the EU area average. Core domestic banks have a high exposure of property-related loans and hence through our supervisory work we will ensure that banks manage such exposures and risks to safeguard the stability of the financial market.

Ensure the efficacy of risk management policies and processes

Our supervisory work will place particular focus on the risk management policies and processes implemented by licence holders. This includes a review of firms' governance procedures, internal controls, review of internal capital adequacy assessment procedures (ICAAPs) and the review of internal liquidity adequacy assessment procedures (ILAAPs) to assess, amongst others, the banks' resilience to liquidity shocks.

We will also review the internal policies and security mechanisms implemented by supervised firms to mitigate the risks and enhance their resilience to cyber-attacks. We plan to conduct on-site visits addressing information security issues to safeguard the interests of consumers, supervised firms and the market at large.

Our supervisory work will also be focused on combatting financial crime. As provided in our AML and CFT Strategy we plan to integrate AML and CFT activities within the conduct and prudential supervisory activities of the MFSA to ensure that supervised firms comply with their AML and CFT obligations.

Ensure compliance to PSD2

The MFSA and the CBM have been designated as the competent authorities for the national transposition of PSD2. We have finalised the PSD2 transposition and are currently revising the financial institution Rulebook, modelling on PSD2. The PSD2 is a harmonised directive designed to provide consumers with a more streamlined service when issuing or receiving payments. The PSD2 is designed to protect the interests of consumers and regulates new market players known as Third Party Providers (TPPs), which may comprise of Account Information Service Providers (AISPs) and Payment Initiation Service Providers (PISPs). Such TPPs are designed to allow customers to conveniently and efficiently manage their finances.

At the MFSA we will strive to remain abreast of emerging technologies and business models in order to enable us to supervise these providers in a more efficient and effective manner. In this manner we will ensure that we are proactive in identifying potential harm to consumers and to address and mitigate such risks in a timely manner to prevent instances of misconduct. We will also ensure that all supervised firms comply with the directive and relevant legislation and regulations delivering a proportionate response to any instances of misconduct resulting in detrimental effects to the consumers and the market at large.

Financial institutions falling under the scope of PSD2 have been requested to submit an endorsement, prepared by an external party, which confirms their compliance to the PSD2 requirements. We will be carrying out further assessments on such financial institutions to ensure compliance.

SREP for less significant institutions (LSIs)

Since 2015, the ECB, in collaboration with national competent authorities, have been working on the development of a common SREP methodology for LSIs. This methodology is based on the EBA SREP Guidelines and builds on the methodology applied to significant institutions, as well as existing national SREP methodologies. The SREP aims to enhance the resilience of the banking system so as to safeguard the sustainability and sound financing of the economy.

We will continue to implement a harmonised SREP methodology for LSIs. In 2018, we launched our SREP programme for LSIs, starting with high-priority LSIs. We plan to apply the SREP methodology to all LSIs by 2020. The frequency of SREP reviews will be carried out in line with the guidelines provided by the ECB. The SREP involves a comprehensive assessment of an institution's arrangements, strategies, processes and mechanisms, as well as their liquidity risk and capital adequacy, to ensure that risks are adequately managed. The SREP assesses existing and potential risks, as well as risks revealed by stress testing and risks which institutions may pose to the financial system.

In conducting the SREP we assess:

- The business model of banks to assess the sustainability of the bank's strategy;
- The governance and risk management of banks to assess whether risks are appropriately managed;
- The adequacy of capital in relation to the bank's risks; and
- The bank's liquidity risk.

Following the SREP, a letter is sent out to every institution with measures that need to be addressed in the following year. Such letters are customised based on the profile of the respective institution. Whilst in general every institution has to comply with the legal requirements that stipulate the minimum amount of capital it has to hold (Pillar 1), the SREP decision may also require institutions to hold additional capital (Pillar 2) and implement other qualitative requirements.

Development of a concentration risk model

In emerging and small economies, concentration risk is a key feature of the banking sector. Pillar 1 capital requirements do not cover concentration risk. However banks are expected to compensate for concentration risk by autonomously estimating and setting aside appropriate capital buffers. As part of our supervisory work we assess and challenge the Pillar 2 capital requirements. For this purpose we are developing a concentration risk model designed to challenge the capital set aside by banks to address concentration risk.

Enhance the frequency and extent of on-site supervision

The planned increase in resources with the right skills and competencies, as earmarked previously in this Strategic Plan, will enable us to enhance the extent and frequency of on-site supervisory visits carried out with respect to credit and financial institutions.

A Joint Supervisory Team (JST), composed of members from our team and supervisors from the ECB, is assigned to the ongoing supervision of each Significant Institution (SI). The JST is headed by a coordinator, who is an ECB employee of the Directorate General in charge of the microprudential supervision of the SI.

The frequency and extent of on-site visits carried out on a SI is up to the JST and the ECB's Centralised On-Site Inspections Division (COI). The COI is mainly responsible for organising, monitoring and coordinating all the on-site inspection activities relating to significant banks throughout the SSM.

In the case of high priority LSIs the frequency of on-site supervisory visits depends on the outcome of SREP and our off-site reviews, whilst for other LSIs the extent and frequency of on-site visits depends on their respective risk profile and structure. The extent of on-site supervisory visits is also guided by the size and complexity of the respective institution.

In the case of financial institutions full scope on-site reviews are planned based on the significance, interconnectedness and risk profile of the respective institution.

As recommended by the ECB's COI, we will explore the possibility of seconding our supervisors to take part in on-site reviews carried out at SIs in other jurisdictions. Such secondment opportunities will provide valuable experience and training to our local supervisory team.

Carry out thematic reviews and ad-hoc deep-dive reviews

Thematic reviews form a significant part of our supervisory approach. Such thematic reviews are designed to help us assess and investigate current or emerging risks pertaining to an issue or product across a number of firms, within a specific sector or market, and identify measures to address these risks. Such thematic reviews are carried out through extensive desk-based review of information, as well as on-site visits.

A number of thematic reviews will be planned and carried out over the coming three-year period. Over the next twelve months we plan to carry out a thematic review on profitability and business models, which will, amongst others, assess banks' ability to strategically steer their business models whilst monitoring the potential consequences of low profitability on the banks' risk-taking behaviour. In addition, we also plan to carry out a thematic review on the IT risks on selected LSIs, as well as financial institutions. Following such thematic reviews we will be publishing the results of our assessments, providing guidance to firms on how to address and mitigate the risks identified.

In relation to financial institutions a thematic assessment of a number of financial institutions shall be undertaken with the objectives of determining the minimum standards of good governance.

Deep-dive reviews are also conducted as part of our supervisory work. The scope of such in-depth assessments are to examine particular risks emanating from an institution's business model, strategy analysis and other risks identified during the course of our supervisory work. Through such deep-dive reviews we identify the root causes of risks and assess how such risks are managed and mitigated.

When carrying out deep-dive reviews we focus on a particular area of the business where we believe there may be significant risks. Such deep-dive reviews involve desk-based analysis, on-site visits and testing, staff interviews, as well as discussions and interviews with senior management personnel. A number of ad-hoc deep-dive reviews are planned annually for the banking sector based on the risks identified through our supervisory work.

In the case of financial institutions deep-dive reviews are also planned on an annual basis. Over the next twelve months we intend to carry out a deep-dive review of the business models applied by financial institutions assessing any significant risks arising from such business models and analysing how such risks are managed and mitigated.

Enhancement of statutory reporting by Financial Institutions

We are currently working with the CBM to develop a new reporting package for financial institutions modelled on the Common Reporting Framework (COREP) and the Financial Reporting Framework (FINREP). This will enhance the statutory reporting of financial institutions enabling integration with the MFSA's BI tools. Such integration would facilitate the enhancement of our supervisory practices by making use of data analytics and focusing on key risk indicator (KRI) metrics. This will also facilitate the enhancement of our Financial Institution Assessment System previously developed.

Through the ongoing monitoring of statutory reporting we will ensure that financial institutions remain at all times above the minimum own funds requirement. Immediate remedial action shall be required where this requirement is breached.

Regulatory development

Developing and maintaining the regulatory framework is a key part of our mandate. As part of our regulatory development we will be revising a number of banking rules (BRs). Over the next twelve months we are planning revision to BR/09 - Credit risk and BR/12 – SREP. We are finalising the development of a new Rule on Internal Governance and transposing EBA guidelines, as part of the MFSA 's cross-sector strategic initiative to enhance the governance setups within supervised entities.

In addition to the above we will continue implementing guidelines published by the EBA through the transposition of such guidelines into Rules or procedures.

Amendments to the CRD/CRR, through the CRD V package are expected to be finalised in 2019, following which we will commence the transposition of the directive in the local legislation.

With respect to financial institutions, following the finalisation of the PSD2 transposition, we are currently working on amendments to the Financial Institutions Rule FIR/02, in view of the changes to the reporting package.

We also plan to provide stakeholders with a point of reference for any regulatory matters to enhance communication with stakeholders.

Cooperate and interact with international regulatory and supervisory bodies

We will continue to cooperate and interact with international regulatory and supervisory bodies. We will continue to actively participate in ECB and EBA working groups and enhance our participation in the SSM network and other bodies.

We will also continue providing feedback to Working Parties on Financial Services of the EU Council whilst continuing to monitor and contribute to Working Parties focusing on Risk Reduction Measures and NPLs.

We are committed to address any issues which may be highlighted by international supervisory mechanisms, to further enhance the integrity and stability of the financial market.

Completion of resolution plans for all institutions and update and enhance such plans

In the period under review we will complete the first iteration of resolution plans for all credit institutions. This is not a one-time process as resolution plans have to be prepared on an annual basis for a number of entities and every two years for the remaining entities. Such plans require further development and engagement with the industry and the SRB.

Developing resolution-related policies

The policy area is considered to be an integral part of resolution which is based on significant policy and legal input. The implementation of such policies would ensure an effective and orderly resolution of a credit institution. This entails building policies to operationalise significant parts of the Recovery and Resolution Regulations (RRR) and Resolution Committee functions and powers, developing policies and internal working instructions, drafting new legislation, implementing EBA guidelines as well as transposing the forthcoming Bank Recovery and Resolution Directive (BRRD2). Moreover building such policies entails engagement with other functions of the MFSA and other external stakeholders.

Development of resolvability assessments of credit institutions

An important area that is being enhanced is the resolvability assessment of credit institutions which we need to expand in scope. Forthcoming iterations will need to elaborate further these assessments to ensure that credit institutions build and retain sufficient loss-absorbing capacity by meeting binding MREL requirements. The enhancement of resolvability assessments and compliance with MREL requirements are essential to ensure the orderly resolution or liquidation of credit institutions, thus meeting the resolution objectives.

Insurance and Pensions

The insurance sector is one of the main pillars of the financial services sector in Malta. Malta remains an attractive location for the establishment of captive and other insurance and reinsurance business in view of its favourable tax regime, regulatory framework and the stability offered to potential investors.

The local insurance sector comprises of domestic life and non-life insurers as well as an increasing number of international investors seeking to establish insurance companies, Protected Cell Companies (PCCs) and Incorporated Cell Companies (ICCs).

The insurance sector plays a central role in enabling economic activity in a wide array of sectors, protecting both individuals and firms against uncertainty. Our priority is to ensure that the market functions well and is proactive in meeting new needs, developments and the changing circumstances of the diverse sectors they service.

We aim to safeguard the stability of the local financial market to encourage further growth of the insurance and reinsurance business, captive insurance companies, PCCs and ICCs in Malta.

The local insurance sector in particular is expected to grow as a direct result of Brexit. We will continue to monitor the Brexit situation and engage with licence holders that will be directly or indirectly impacted by Brexit.

Our priorities for the insurance sector which are also consistent with the supervisory priorities issued by the EIOPA for the years 2019 – 2021 are the following:

Embrace and respond to Insurance Technology (InsurTech)

The digital transformation of the insurance sector brings benefits as well as risks to supervised firms and consumers. For instance, whilst InsurTech may allow insurance companies to share data, which may potentially lead to lower premiums for the benefit of consumers, it may also result in consumers being excluded from certain policies. InsurTech is enabling insurance firms to use and analyse new streams of data to provide customised policies addressing the specific needs of their customers. Our aim is to ensure that the consumer is protected and any risks arising from the use of InsurTech are identified and addressed in a timely manner.

The investment in SupTech will enable us to evolve and respond to the digital innovation in the insurance sector by enabling us to carry out an in-depth and real-time supervision of the insurance sector. We plan to invest in technology to ensure that the Authority is equipped with the necessary tools which will enable the MFSA to enhance the productivity, efficiency and effectiveness of our supervisory work whilst enabling the better analysis of data and knowledge-sharing within the Authority.

Consistent with our FinTech strategy we will work to facilitate innovation within the insurance sector focusing, amongst others, on the need to adapt regulatory and supervisory initiatives to improve regulatory efficiency whilst protecting consumers and safeguarding the stability and integrity of the insurance sector.

Ongoing consultation and cooperation with EIOPA and national competent authorities (NCAs)

We are committed to continue to discuss and consult with EIOPA to further enhance our supervisory function. In addition, we will continue to cooperate and engage with other NCAs on matters in relation to binding arrangements, outsourcing, reinsurers and pensions, amongst other areas. We will also interact with EIOPA and NCAs with a view to enhance our insight of underlying and emerging risks pertaining to the insurance sector and discuss regulatory developments.

Focus on risk management and governance

Our supervisory work will focus on the governance structure of firms licensed to operate within the insurance sector. The stability of the financial market is dependent on the culture and governance of firms operating within the financial services market. We plan to draft a governance manual providing firms with good governance principles and which supervised firms will be expected to implement and maintain.

We will also ensure that supervised firms within the insurance sector comply with the requirements of the Solvency II framework. The Solvency II framework covers the following main areas which will be the focus of our supervisory work:

- Risk-based capital requirements where insurance companies are required to hold capital which is sufficient in relation to their risk profile;
- Governance and risk management whereby insurance companies are required to implement and maintain an adequate and transparent governance structure whilst assessing risk and solvency on a regular basis; and
- Supervisory reporting and public disclosure requirements.

Development of a formal recovery and resolution framework for insurers

We plan on issuing a consultation paper with a view to develop a formal recovery and resolution framework to be applied by insurers, taking into account proposals by the EC in this regard. The scope of such a framework is to ensure that firms are better prepared to recover from situations of severe stress. The consultation paper will be designed to propose requirements to be implemented by insurers with respect to the preparation and maintenance of Recovery and Resolution plans.

Through Recovery Plans insurers will be required to identify, assess and document recovery options that may be applied to maintain their financial strength and viability in the event of severe stress situations. Resolution planning requires insurers to submit to the MFSA an analysis of their business, organisation and structures so as to ensure that the MFSA, should it become necessary, may carry out an orderly resolution.

Regulatory development

Whilst transposing EU legislation in the insurance and pensions sector we will, based on our market insight, carry out regulatory developments to address changes and emerging risks in the market to ensure our regulatory framework pertaining to the insurance and pensions sector keeps pace with market developments.

Securities and Markets

The Securities and Markets sector includes collective investment schemes and investment service providers which include:

- Retail Collective Investment Schemes, primarily Undertaking in Collective Investment Transferable Securities (UCITS);
- Professional Investor Funds (PIFs);
- Alternative Investment Funds (AIFs);
- Notified Alternative Investment Funds (NAIFs);
- MiFID Firms;
- AIF Managers (AIFMs) and UCITS Management Companies, collectively referred to as Investment Managers; and
- Custodians.

Through our off-site supervision we monitor and analyse the ongoing developments in the business of supervised entities, carry out desk reviews of periodic regulatory returns, financial statements and other documentation, whilst addressing queries and correspondence with various parties, including foreign and local regulators. During our on-site supervisory visits, we analyse and evaluate processes, procedures, internal controls, operational activities and risk models of supervised entities, as well as their interaction with customers. Our supervisory priorities for the period 2019 - 2021 are the following:

Ensure governance and compliance structures

We will be enhancing our supervision of firms providing high-risk investments, normally characterised by complex or speculative structures. This is to ensure that firms are clearly identifying and appropriately disclosing the risks pertaining to such high-risk investments. During our supervisory work we shall also review firms' culture and governance to assess whether they have effective systems and internal controls in place to manage their business in line with regulatory requirements.

We will be issuing questionnaires to a sample of licence holders with a view to assess their governance and risk management culture. We will assess whether the 'tone` is set from the top of the organisation and appropriately cascaded down and monitored. In addition, we will be issuing a circular providing policies aimed at improving the governance structures of small firms, in particular in relation to independence.

Enhance resilience to cyber-attacks

The investment sector is seeing the use of technology, such as distributed ledger technology and AI, which is resulting in real benefits to all stakeholders by enhancing the competitiveness of the sector through innovation and efficiency. The digital transformation of this sector makes supervised firms prone to cyber-attacks, loss of data and disruption of service to the detriment of firms and also consumers. Supervised firms will be required to follow the guidelines issued by the MFSA on cybersecurity as outlined in this Strategic Plan. We will engage with firms to ensure that they have allocated the required resources with the necessary skills and competencies, as well as the necessary security mechanisms to enhance their resilience to such threats and avoid the disruption of critical services.

Ensure compliance to MiFID II

The financial markets have been subject to large-scale and complex regulatory changes. MiFID II has imposed more rigorous rules on transaction reporting and its scope has been expanded to cover new instruments and asset classes with the aim of providing more information on transactions. MiFID II has also introduced new obligations with respect to mechanisms, systems and controls to better manage the potential risks attributed to algorithmic High-Frequency Trading (HFT). Our supervisory work will focus on ensuring that relevant firms comply with the requirements of MiFID II and all applicable laws and regulations.

Regulatory development

We are committed towards engaging with the market to determine whether any further regulation is required to ensure that our regulatory framework appropriately covers new market developments. Where necessary we will explore and develop additions to the legal frameworks for new vehicles/products, which firms may promote, to ensure the continued growth and stability of the market. We are currently in the process of reviewing the rules applicable to Collective Investment Schemes (CIS) and Investment Services Rules (ISR) for AIFs.

Liquidity Management — Directives 2009/65/EC and 2011/61/EU both contain liquidity management requirements. In light of the recommendations issued and work undertaken by International Bodies, primarily the ESRB, the Financial Stability Board (FSB) and the International Organisation of Securities Commission (IOSCO), as well as the work being carried out by ESMA on liquidity stress testing, the Securities and Markets team will be carrying out thematic work in relation to liquidity management practices of asset managers.

Performance Fees — We are currently following up developments at ESMA level regarding the achievement of supervisory convergence in the area of performance fees. We will continue to closely monitor these developments and will undertake the necessary amendments to the current statutes and standard licence conditions to align them to the EU-wide framework being proposed. In July 2019, a consultation paper on this subject has been issued by ESMA.

A new regime for Investment Firms

On 7th January 2019 the Council of the European Union endorsed the EC's legislative proposals for prudential requirements for investment firms: the Investment Firms Regulation (IFR) and the Investment Firms Directive (IFD). The aim of the proposals is to create a new, simpler and more risk-sensitive prudential capital regime for MiFID Investment Firms, that define regulatory capital levels in a more proportionate manner than existing rules (CRR/CRD IV). The MFSA will:

- continue to examine the details of the new framework and assess how this will impact our current regime. The new framework is going to change the authorisation and the supervision process, effectively overhauling the current framework.
- transpose the requirements into our Rulebooks, with possible changes to Subsidiary Legislation.
- consult with the industry regarding the introduction of this new Framework, mainly in relation to the changes to the Rulebooks and the possible Subsidiary Legislation.

Brexit

We have set up an internal working group within the MFSA for the purpose of assessing the implications of Brexit on investment firms, investment funds and service providers. The implications of a no-deal Brexit on the asset management industry in Malta have been assessed and depending on Brexit developments we are working towards implementing a temporary permission regime for UK investment firms, fund managers and investment funds passporting into Malta, so as to allow them to continue providing their services to existing Maltese clients for a limited period of time.

Capital Markets

Through its regulatory regime which is flexible and robust, Malta provides the necessary infrastructure to cater for capital markets.

The MFSA besides being the single regulator for financial services is also the Listing Authority and approves admissibility to listing on Regulated Markets and Initial Public Offerings. Our main priorities for capital markets are the following:

Formulation of a Capital Market Strategy

We are currently in the process of formulating our Capital Market Strategy, which we expect to publish later on this year. The Capital Market Strategy will focus on the following five main pillars:

- Revisiting the risk appetite of the Authority;
- Revisions required to the regulatory framework;
- Strengthening the sponsors regime;
- Building on supervisory capacity; and
- Investor education.

Once the Capital Market Strategy is formulated we will then embark on the implementation of this Strategy, which will guide our work with respect to Capital Markets. As part of our Capital Market Strategy we are also formulating a Securities Token Offering (STO) Policy. In July 2019, we launched a discussion paper on the STO Policy for consultation. The proposed STO Policy takes into consideration the evolving needs of the industry while ensuring high standards of investor protection and market integrity.

Enhance market integrity and protect the interests of investors

We will continue to encourage the financial markets to be fair and transparent to create an environment that augments the trust of investors whilst enabling entities operating within such markets to grow and prosper. We will focus on preventing and detecting misconduct in the financial markets, namely insider dealing, unlawful disclosure of inside information and market manipulation to achieve our strategic objectives of safeguarding the interests of investors and enhancing the stability and integrity of the financial markets.

Enhance transparency and the resilience of infrastructures

Through our supervisory work we will ensure that listed companies publish regulated information, including but not limited to financial information, through the publication of company announcements.

We will also ensure the transparency of transactions in financial instruments, including amongst others, equity, debt instruments, derivative transactions and securities financing transactions.

Implementation of the European Single Electronic Format (ESEF)

ESEF is the electronic reporting format which issuers on EU regulated markets must use to prepare their Annual Financial Report. The use of ESEF will apply for financial years beginning on or after 1st January 2020. The implementation of ESEF is designed to facilitate submissions made by issuers whilst also facilitating accessibility, analysis and comparability by investors and the regulator. We are currently developing and implementing tools which will allow us to access and analyse information submitted by issuers, whilst also checking the International Financial Reporting Standards (IFRSs) taxonomy of the Annual Financial Reports submitted by issuers.

Regulatory development

In addition to the ongoing regulatory development which will be required following the formulation and publication of our Capital Market Strategy, we are currently in the process of implementing the Securitisation Regulation. Securitisation rules are currently found in different legislation, such as the Capital Requirements Regulation, the Alternative Investment Fund Managers Directive, and the Solvency II Delegated Act. We aim, through amendments of legislation and Rulebooks, to provide for the requirements of this Regulation, which will be applied in a harmonised manner to all securitisations, securitising entities, and EU-regulated institutional investors. The Securitisation Regulation defines securitisation and establishes due-diligence, risk-retention and transparency requirements for parties involved in securitisations, criteria for credit granting, requirements for selling securitisations to retail clients, a ban on re-securitisation, requirements for special purpose entities used in securitisation transactions (SSPEs), as well as conditions and procedures for securitisation repositories. It also creates a specific framework for simple, transparent and standardised (STS) securitisation. The scope of the Regulation and the parties involved therein is wide and encompasses persons authorised/supervised by all the functions within the MFSA. It shall be necessary for all Rulebooks of the various functions to be amended to also provide for the requirements of this Regulation.

Amendments to legislation, listing rules and Rulebooks are also underway to implement the Prospectus Regulation (PR3) and transpose the Shareholders' Right Directive (SRD II). On 20th July 2017, the PR3 entered into force. PR3 repeals and replaces EU Directive 2003/71/EC (the Prospectus Directive) and began applying on a rolling basis, with full application from 21st July 2019. Since the MFSA is the competent authority for the scrutiny and approval of prospectuses, amendments to legislation and listing rules will be carried out as required to ensure that Public Offers fall within the remit of the MFSA, more specifically the Listing Authority. SRD II is an EU directive, which sets out to strengthen the position of shareholders and to ensure that decisions are made for the long-term stability of a company. It amends SRD I which came into effect in 2007, with the objective of improving corporate governance in companies whose securities are traded on the EU's regulated markets.

In addition to the above we are reviewing possible revisions to listing rules whilst we will work towards the implementation of new reporting requirements under the Securities Financing Transactions Regulation (SFTR). We will also work on the implementation of amendments to EMIR and the new regulations pertaining to Central Counterparties (CCPs), as part of EMIR.

Trustees and Corporate Services Providers (CSPs)

The supervision of Trustees relates to:

- Persons acting as Trustees;
- Persons acting as mandatories;
- Administrators of Private Foundations;
- Trustees of Family Trusts; and
- Persons acting as Qualified Persons.

The supervision of CSPs covers companies and individuals that carry out corporate services in relation to:

- Incorporation of companies;
- The provision of registered office services;
- Directorship or company secretary appointments by the registered person or by arranging for a third party to provide this service.

Through our off-site supervision we carry out desk reviews of periodic regulatory returns and other relevant documentation. We also review the set-ups that involve trusts, mainly retirement schemes and security trust deeds to ensure the necessary safeguards are in place with respect to investors. On-site supervisory visits are carried out to review the operations, internal processes, controls and risk models of supervised entities. Through in-depth reviews we identify any matters that merit enhanced supervision or deep-dive reviews.

Our supervisory priorities for the period 2019 -2021 are the following:

Ensure proper governance of authorised trustees and CSPs

We will be working to enhance our supervision of trustees and CSPs, focusing on corporate governance, the effectiveness of the Board of Directors, the compliance function, business models and the risk assessment of these entities, amongst other areas.

Enhance our engagement with the industry

We intend to increase our engagement with the industry though various channels:

We intend to carry out regular thematic reviews on areas we deem to be critical. Following such thematic reviews, we will communicate to the industry any common findings, shortcomings or observations. Supervised entities are then expected to carry out a gap analysis to identify any deficiencies that need to be rectified or fine-tuned and take remedial action.

Through the desk-top review of submissions by regulated firms and the analysis of other relevant data collected we seek to identify areas that may be addressed in a better manner by regulated firms, or which require fine-tuning. In this regard, we intend to issue guidance to regulated firms through, *inter alia*, circulars and Frequently Asked Questions (FAQs).

We also aim to deliver regular training to regulated firms to provide updates on any new regulatory requirements and to address any risks identified through our supervision. This will ensure that regulated firms are aware of their regulatory obligations and the key risks they need to address.

Regulatory development

We will continue to engage with the market to determine any regulatory developments required to ensure that our regulatory framework addresses market developments. We intend to reinforce the Rules for Trustees and Other Fiduciaries and the Rules for CSPs, to provide further clarification and guidance to regulated firms.

The EU Anti-Money Laundering Directive

One of the measures relating to transparency and accessibility to beneficial ownership information introduced by the EU 4th AMLD, requires Member States to set up and maintain registers of beneficial ownership information of all legal entities and trusts, which generate tax consequences. In this regard, we have set up and maintain the Register of Beneficial Owners of Trusts.

Since Malta is required to ensure that the information held in the Register is adequate, accurate and up-to-date, we employ various data verification measures. Following the thematic process launched in 2019 focusing on compliance by trustees with the regulatory requirements in relation to the reporting of beneficial ownership of trusts, we intend to embark on a number of on-site inspections aimed at verifying the accuracy of the trusts beneficial ownership information reported. We will identify any common findings and shortcomings observed during the said on-site inspections, which shall be published and disseminated amongst the relevant industry players. By ensuring that the trusts beneficial ownership register is comprehensive and up-to-date, we will contribute to demonstrating Malta's active commitment as a jurisdiction to fulfil its obligations as a Member State to enhance transparency and strengthen the fight against money laundering and terrorist financing across the EU.

In addition, we will also be involved in the transposition of the amendments introduced by the EU 5th AMLD with respect to the provisions relating to beneficial ownership registers. The changes will bring all trusts within the scope of the reporting obligations in the Register, irrespective of whether the trustee has incurred any tax liability on behalf of such trust or otherwise. This will necessitate a revisiting of the access rights to the beneficial ownership information of trusts held within the Register. We will also be introducing a number of enhancements to the TUBOR online platform. Such enhancements will increase the efficiency of the system, both in so far as it relates to the submission of data by trustees, as well as in relation to processing changes to the beneficial ownership information as may be necessary.

Chapter 5

Overview of our priorities for the year ahead (2019/2020)

The following Chapter outlines initiatives and measures, previously provided within this Strategic Plan, which we plan to undertake over the next twelve months. Each year we intend to provide stakeholders with an update on the progress made and the plans for the year ahead.

Cross-sector priorities

Governance, culture and conduct

- Implementation of revised organisational and governance structure.
- Refine existing internal standards and policies.
- Revisit our internal risk appetite and framework.
- Implementation of a harmonised risk-based supervisory approach.
- Issue of a Corporate Governance Code providing guidelines on minimum standards for good corporate governance.
- Carry out workshops and seminars to educate Directors whilst engaging with licence holders to promote the required standards of good corporate governance.

Financial crime, AML and CFT

- Assist in the implementation of the national AML/CFT Strategy.
- Strengthen collaboration and cooperation with international bodies in the fight against financial crime.
- Strengthen the regulatory setup to mitigate the risks of financial crime, money laundering and the financing of terrorism.
- Continue to provide continuous training to MFSA personnel on AML and CFT.
- Implement SupTech intelligence tools to monitor and address business risks related to virtual assets and cryptocurrency businesses.

Cross-sector priorities

Financial stability and sustainability

- Develop the necessary expertise within the financial stability team to enable more holistic macroprudential surveillance.
- Ongoing monitoring of threats to financial stability and the calibration of our macroprudential tookit, policy and analytical tools in response to risks identified.
- Develop preventative policies to mitigate risks identified and enhance our work on recovery and resolution.
- Development of a network model, mapping out the interconnectedness within the banking and the wider financial sector.
- Enhancement of risk models and the implementation of risk dashboards and indices for monitoring system risks.
- Ongoing thematic studies and research.
- Carry out seminars and issue publications on an ongoing and timely basis to provide information on key market data.
- Enhance our participation in European working groups, as well as enhancing our contribution to the international discussion and in shaping the international agenda, working towards the agenda and supervisory convergence communicated by the ESAs.
- Examine the impact of any proposed legislative changes to the local financial sector, consulting with all relevant stakeholders in the process.

Technology and innovation

FinTech Strategy

- Issue consultation paper on Pillar I and Pillar II regulations.
- Issue consultation paper on the implementation of a regulatory sandbox and the setting up of a FinTech Innovation Hub.
- Publish, following the consultation process, regulations with respect to Pillar I and Pillar II.
- Initiate, following the consultation process, the implementation of the regulatory sandbox and FinTech Innovation Hub.

Technology Strategy

- Upgrade current BI system.
- Migrate to a hybrid cloud infrastructure.
- Introduce MI dashboards.
- Identify system and business requirements for the SCMS, Data Warehouse, BI and MI systems.
- Improve our web-hosting architecture and explore the introduction of chatbot technology.
- Implement new or enhance existing business support software.
- Introduce IT Infrastructure Library (ITIL) Service Management.
- Initiate implementation of digital signature infrastructure and a Records Management System.

Cross-sector priorities

Cybersecurity and resilience

- Issue cybersecurity guidelines for all supervised firms.
- Conduct on-site visits to assess licence holders' resilience to cyber-attacks and adherence to cybersecurity policies.
- Refine existing internal standards and policies.
- Set up an ICT Risk and Cybersecurity function within MFSA's Supervisory Directorate.
- Design a transition plan for the newly-formed ICT Risk and Cybersecurity function.
- Set up a cybersecurity incident response team.
- Designate and create a support group to act as a primary contact point in response to cybersecurity incidents or queries from licence holders.
- Define policies and procedures around incident management.
- Build relationships with Malta's Computer Security and Incident Response Team, the Critical Infrastructure Protection Directorate and Malta's Security Service and other relevant stakeholders.

Organisational and operational capacity

- Carry out reforms to the Educational Consultative Council.
- The formation of an Academy for Financial Supervisors.
- Offer internships to students pursuing a career in financial services.
- Collaborate with international regulatory bodies to provide secondment opportunities to and from Malta.
- Pilot the SPP in 2019 with a view to officially launch the scheme in 2020.
- Review and enhance existing internal processes and the delegation framework.
- Initiate the process of recruiting personnel with the required skills, competencies and experience.
- Recruit a front-end relationship manager within the Authorisations function to provide applicants with a contact point on all matters pertaining to the application process.
- Explore the possibility of assigning a designated account manager to each licence holder to facilitate communication and provide licence holders with one central contact.
- Refine our consultation process to ensure that all relevant stakeholders are given the opportunity to provide their insights before the issuance of consultation documents and ensuring that sufficient time is given to provide feedback following the issuance of consultation documents.
- Continue to issue sector-specific newsletters and organise regular regulatory updates and conferences.
- Enhance career development programmes within the MFSA and provide our employees with continuous training and development, whilst exploring the possibility of extending the scope of study support programmes.
- Promote a diverse and inclusive culture within the MFSA.

Cross-sector priorities

Conduct supervision

- Extension of the Conduct of Business Rulebook, applicable to insurance undertakings, insurance intermediaries and investment firms to include the conduct of business rules applicable to credit institutions.
- Issuance of conduct rules aimed at credit institutions and financial institutions offering equity release financial products.
- Implementation of the National Product Intervention Measures taken during 2019 with respect to investment firms providing services in relation to binary options and CFDs.
- Transposition into the Conduct of Business Rulebook of the current policy for firms distributing or intending to distribute CFDs and/or rolling spot foreign exchange contracts under the MiFID regime.
- Carry out consumer awareness campaigns and research focusing on IPID, the Equity Release Scheme and Motor Insurance amongst other areas.
- Ongoing review of disclosure documentation issued by regulated firms to their clients on a pre-contractual basis to ensure compliance with the requirements and methods established in the relevant legislation.
- Ongoing review of promotional material issued by regulated firms to ensure it is clear, fair and includes all necessary disclosures.
- Enhanced focus on ensuring compliance to the conduct of business obligations emanating from MiFID II and the Insurance Distribution Directive.
- Conduct thematic reviews, market research, studies and surveys, in addition to our routine supervisory work to enhance our understanding of the wide array of financial services and products.
- Enhance our consumer complaints handling process to ensure these are addressed in an efficient manner to address misconduct by licence holders in a timely manner, limiting harm to consumers.
- Ensure that enforcement action is taken in a proportionate manner against firms carrying out misconduct to protect consumer interests and act as a deterrent to future misconduct.

Sector-specific priorities

Credit and Financial Institutions

- Carry out a diagnostic analysis of the Banking Supervisory function to enhance MFSA's compliance to the Basel Core Principles, the guidelines issued by the EBA and SREP requirements.
- Issue a consultation paper on the challenges facing the banking sector in Malta, for the purpose of proposing possible cooperation and intermediation solutions between the financial and non-financial sectors.
- Issue a consultation paper on how FinTechs complement and compete with traditional banks, seeking to propose regulatory and supervisory models for FinTechs to serve the economy in a controlled and risk-prudent environment.
- Our supervisory work will focus on governance procedures, internal controls, review of ICAAPs and ILAAPs, credit risk and risk management policies implemented by licence holders.
- Carry out revisions to the financial institution Rulebook, modelling on PSD 2.
- Continue the implementation of the SREP methodology to LSIs.
- Development of a concentration risk model to assist us in our review of capital set aside by banks to address concentration risk.
- Enhance the frequency and extent of on-site supervision.
- Carry out thematic reviews on firms' profitability and business models, IT risks pertaining to selected LSIs and the governance structures of financial institutions.
- Carry out a review of the business models applied by financial institutions.
- Implementation of a new reporting package for financial institutions.
- Revisions to BR09, BR12, the development of a new Rule on Internal Governance, as well as the transposition of the CRD/CRR and guidelines.
- Completion of resolution plans for all institutions and update and enhance such plans.
- Develop and implement resolution-related policies to ensure an effective and orderly resolution of credit institutions.
- Develop and enhance resolvability assessments of credit institutions and ensuring their compliance with MREL requirements.

Sector-specific priorities

Insurance and Pensions

- Our supervisory work will focus on governance, conduct and risk management of licence holders.
- Monitor and respond to Brexit developments.
- Issue a consultation paper on the development of a formal recovery and resolution framework to be applied by insurers.
- Transposition of EU legislation and carry out regulatory developments to address changes and emerging risks in the market.

Securities and Markets

- Our supervisory work will focus on firms' governance and compliance structures, resilience to cyber threats and compliance to MiFID II requirements.
- Carry out an assessment of licence holders' governance and risk management culture.
- Issue a circular providing policies aimed at improving the governance structures of small firms, in particular in relation to independence.
- Engage with the market to explore potential new legal frameworks designed to create new legal vehicles, which firms may promote to enhance the growth and stability of the financial market.
- Carry out thematic work in relation to liquidity management practices of asset managers.
- Follow developments at ESMA level regarding the achievement of supervisory convergence in the area of supervisory fees.
- Examine the details of the new framework and regime for investment firms and assess how this will impact our current regime, whilst initiating a consultation process with the industry regarding the introduction of this new framework.
- Transposition of EU directives and ongoing regulatory development.
- Monitor and respond to Brexit developments.

Sector-specific priorities

Capital Markets

- Formulate a Capital Market Strategy.
- Issue feedback statement to the STO Policy consultation document, issued in July 2019 and finalise the STO Policy.
- Focus on ensuring that listed companies publish regulated information and ensuring the transparency of transactions in financial instruments.
- Implementation of the Securitisation Regulation, the Prospectus Regulation, amendments to EMIR, new regulations pertaining to CCPs and the new reporting requirements under the SFTR.
- Revision of listing rules and transposition of the Shareholders' Right Directive.

Trustees and CSPs

- Our supervisory focus will be on corporate governance, the effectiveness of the Board of Directors, the compliance function, business models and risk assessment of trusts and CSPs.
- Issuance of guidance to regulated firms, following desk-top reviews and thematic reviews on risk areas that should be addressed by regulated firms.
- Provision of training to regulated firms based on new regulatory requirements and risk areas identified.
- Ongoing regulatory developments to ensure that our regulatory framework addresses market developments.
- Carry out on-site inspections aimed at verifying the accuracy of the trusts beneficial ownership information reported and publish common findings and shortcomings observed during the said on-site inspections.
- Transposition of the amendments introduced by the EU 5th AMLD with respect to the provisions relating to beneficial ownership registers.

Chapter 6

How we operate

This Chapter provides details of our finances and presents an overview of our budget for the year 2019.

The main components of our budget include:

- The cost of our people which represents the largest element of our annual operating expenditure; and
- Capital expenditure required to cater for our operational requirements and invest in the required technology and information systems.

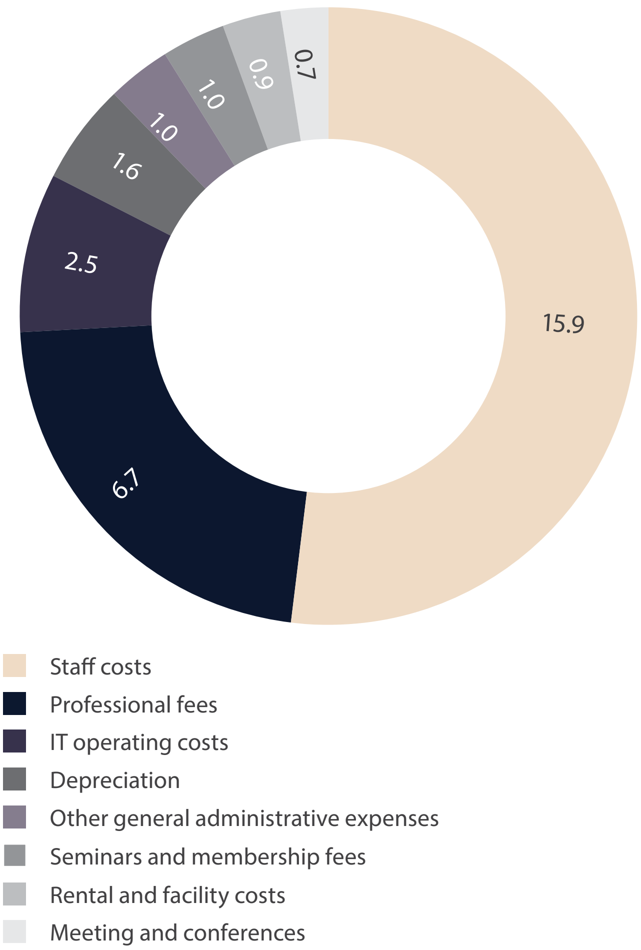
Budget for financial year 2019

Our budget for financial year 2019 takes into account the additional expenditure required to implement the initiatives provided in this Strategic Plan and those earmarked for implementation during 2019.

The operating expenditure for the year 2019 is expected to amount to €30.3m (2018: €24.1m), hence representing a €6.2m (25.7%) increase when compared to the costs incurred in 2018. This increase is primarily attributable to our commitment to invest in our people and ensure that the MFSA is equipped with the right amount of resources, having the necessary skills, competencies and experience. Our vision is to establish the MFSA as a leading authority. For this purpose, we are committed to making the necessary investment to enhance our standards and the efficacy of our operations, contributing towards the enhancement of consumer trust and safeguarding the stability and integrity of the financial market, to the benefit of all stakeholders and the market at large.

The following chart provides an overview of how the budgeted operating expenditure for 2019 is allocated. Staff costs which includes salaries, employee insurance, training and development costs amounts to €15.9m, representing 52.5% of our total budgeted expenditure for financial year 2019. Professional fees and IT related expenses amount to €6.7m and €2.5m respectively, representing 22.1% and 8.3% of our total budgeted expenditure.

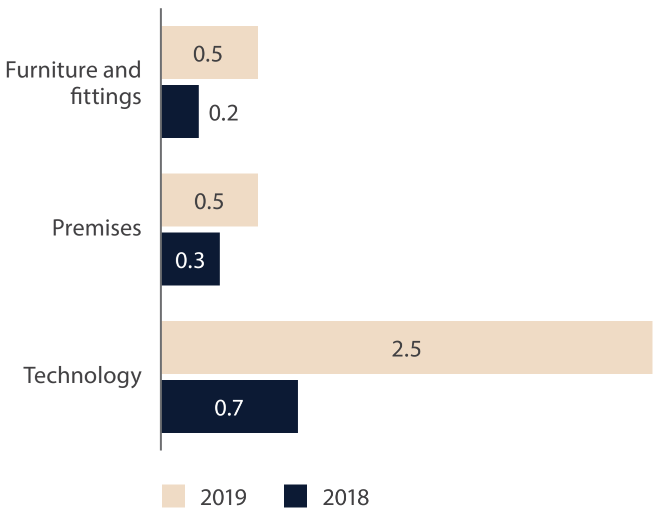
Budgeted operating expenditure for financial year 2019 (€m)



Capital expenditure

Capital expenditure in 2019 is expected to amount to €3.5m. In 2018, capital expenditure amounted to €1.2m. The increase in capital expenditure reflects the implementation of our Technology Strategy which will see considerable investment in technology and information systems, as we strive to ensure that the Authority is equipped with the necessary technology, systems and tools to be able to keep pace with the technological advancements within the financial services sector and contribute towards enhancing our efficiency and efficacy. The chart below provides an overview of the capital expenditure planned during financial year 2019.

Capital expenditure (€m)



Financing of our operations

The above costs are expected to be financed through the authorisation and supervisory fees charged to prospective and existing licence holders respectively, as well as listing fees charged to the market, in our capacity as the Listing Authority. Nevertheless, such fees are not sufficient to cover the annual operational costs incurred by the Authority. As a result, the Authority is currently partially dependent on government subventions to finance its operations. In 2018, the deficit registered by the Authority amounted to €7.8m.

We are aware of the importance that the MFSA becomes financially autonomous from the Government. Taking on board the recommendations provided by the IMF in February 2019, we intend to revisit our policy relating to licence fees.

For this purpose, a consultation process will be carried out with licence holders and relevant stakeholders to discuss potential revisions to our fee structures, as we strive to reduce our dependency on government financing.

This Strategic Plan will also be supported by a five-year Business Plan covering financial years 2019 to 2023, which Business Plan will be communicated to the Government to secure the required government contributions to sustain any shortfalls in the projected regulatory revenues.

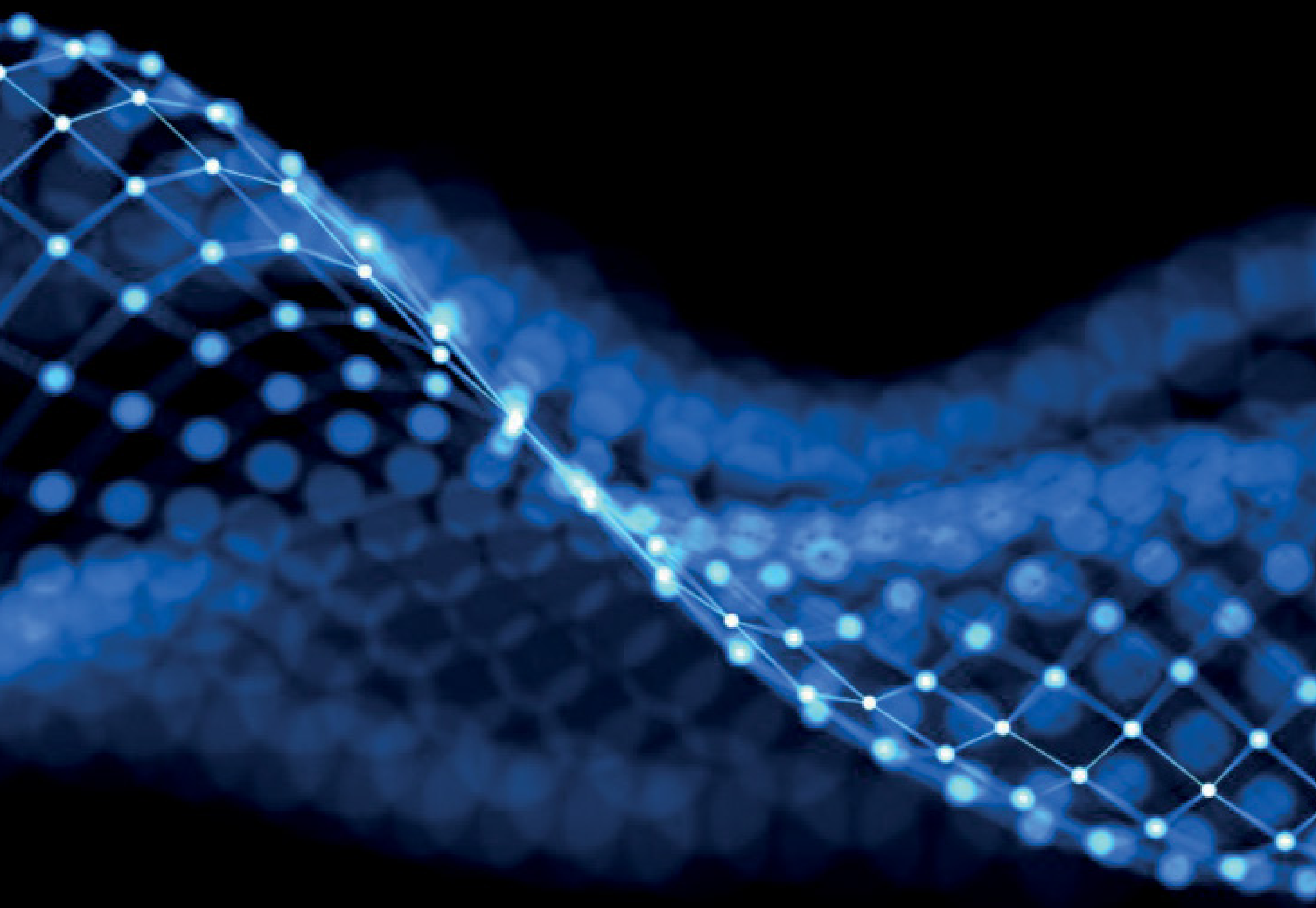
Annex 1

List of Abbreviations

AI	Artificial Intelligence
AIFs	Alternative Investment Funds
AIFMs	Alternative Investment Fund Managers
AIFMD	Alternative Investment Fund Managers Directive
AISPs	Account Information Service Providers
AML	Anti-Money Laundering
AMLD	Anti-Money Laundering Directive
APIs	Application Programme Interfaces
BCP	Business Continuity Plan
BI	Business Intelligence
BPR	Business Process Reengineering
BRs	Banking Rules
BRRD	Bank Recovery and Resolution Directive
CBM	Central Bank of Malta
CCPs	Central Counterparties
CEMA	Committee of Economic and Markets' Analysis
CEO	Chief Executive Officer
CFDs	Contracts for Differences
CFT	Countering the Financing of Terrorism
CIS	Collective Investment Scheme
CISO	Chief Information Security Officer
COI	Centralised On-Site Inspections Division
COREP	Common Reporting Framework
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSF	Cybersecurity Framework
CSPs	Corporate Services Providers
DDoS	Distributed Denial-of-Service
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECC	Educational Consultative Council
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	European Market Infrastructure Regulation
ESAs	European Supervisory Authorities
ESEF	European Single Electronic Format
ESFS	European System of Financial Supervision
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority

ESRB	European Systemic Risk Board
EU	European Union
FAQs	Frequently Asked Questions
FIAU	Financial Intelligence Analysis Unit
FINREP	Financial Reporting Framework
FinTech	Financial Technology
FIR	Financial Institutions Rule
FSB	Financial Stability Board
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
HFT	High-Frequency Trading
ICAAPs	Internal Capital Adequacy Assessment Procedures
ICCs	Incorporated Cell Companies
ICT	Information and Communications Technology
IFD	Investment Firms Directive
IFR	Investment Firms Regulation
IFRSs	International Financial Reporting Standards
ILAAPs	Internal Liquidity Adequacy Assessment Procedures
IMF	International Monetary Fund
InsurTech	Insurance Technology
IoD	Institute of Directors
IOSCO	International Organisation of Securities Commission
IPIDs	Insurance Product Information Documents
ISR	Investment Services Rule
ITIL	IT Infrastructure Library
JFSB	Joint Financial Stability Board
JST	Joint Supervisory Team
KIDs	Key Information Documents
KRI	Key Risk Indicator
LH	Licence Holder
LSIs	Less Significant Institutions
MDIA	Malta Digital Innovation Authority
MCAST	Malta College of Arts, Science and Technology
MFSA	Malta Financial Services Authority
MI	Management Information
MiFID II	Markets in Financial Instruments Directive
MoU	Memorandum of Understanding

MREL	Minimum Requirement of Own Funds and Eligible Liabilities
NAIFs	Notified Alternative Investment Funds
NCAs	National Competent Authorities
NCPE	National Commission for the Promotion of Equality
NPLs	Non-Performing Loans
NSO	National Statistics Office
OECD	Organisation for Economic Co-operation and Development
PCCs	Protected Cell Companies
PIFs	Professional Investor Funds
PISPs	Payment Initiation Service Providers
PQs	Personal Questionnaires
PR3	Prospectus Regulation
PSD2	Payment Services Directive
RegTech	Regulatory Technology
RRR	Recovery and Resolution Regulations
SCMS	Supervisory Cycle Management System
SFTR	Securities Financing Transactions Regulation
SI	Significant Institution
SPP	Student Placement Programme
SRD	Shareholders' Right Directive
SREP	Supervisory Review and Evaluation Process
SRB	Single Resolution Board
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
SSPEs	Securitisation Special Purpose Entities
STO	Securities Token Offering
STS	Simple Transparent and Standardised
SupTech	Supervisory Technology
TPPs	Third Party Providers
TUBOR	Trusts Ultimate Beneficial Ownership Register
UCITS	Undertaking in Collective Investment Transferable Securities
UoM	University of Malta
VFA	Virtual Financial Asset



Malta Financial Services Authority

Mdina Road, Zone 1, Central Business District, Birkirkara, CBD 1010
Tel: +356 2144 1155   Fax: +356 2144 1188   Email: info@mfsa.mt
www.mfsa.mt