ANNUAL REPORT **2016**

MFSA

Malta Financial Services Authority

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CHAIRMAN'S STATEMENT

A number of events shaped the world economy in 2016. The financial markets started the year badly for investors. Very early in the year global equity markets lost more than $4 trillion of value, on fears about China's economic slowdown and a depreciating currency. The global impact was painful but, fortunately, not enough to plunge the world into recession. The problems did not disappear but were at least contained.

Another weakness in markets was the downturn in oil prices which escalated with the selling of energy sector shares and bonds, particularly the junk-rated debt of US-based shale drillers. Also, the Bank of Japan delivered another big shock as it embraced a negative interest rate policy. The repercussions were immediate; investors dumped the shares of banks, while Japan's investors sought higher-yielding Eurozone, UK and US debt and helped drive down developed world market interest rates.

A further upset was the UK vote to leave the European Union. Brexit was a genuine shock for markets, given that investors had been confident that the UK would stay in the EU. The No vote resulted in a much weaker pound and also triggered a pronounced drop in Government bond yields. The full implications of the UK leaving the European Union remain unclear, particularly for financial markets. About 80% of financial services activity in the EU is carried out through the UK.

A further risk to markets was Italy's constitutional referendum and the bad loans plaguing the country's banks. Italy voted No to proposed reforms, triggering a political crisis; the value of the country's banking shares remains low.

After the shock of Brexit, investors approached the US election with a degree of trepidation. The shock of Donald Trump winning the electoral college vote was, however, short lived as investors rapidly embraced the idea of both a Republican-controlled White House and a Republican-controlled Congress being a game changer, able to implement fiscal stimulus, cut tax and roll back on regulations for US business.

The Maltese economy continued to show great resilience despite the global shocks. In recent years growth continued strongly, averaging 4% per annum. In 2016, GDP was around €10 billion and the forecast is for continued growth. Malta's GDP is forecast to reach 97% of the EU average in 2017. This robust growth led Standard and Poor's to upgrade the country's sovereign rating from BBB+ to A-. The country ratings by Moody's and Fitch are A3 and A respectively.

The financial sector continues to remain a strong contributor to the economy. According to the National Office of Statistics, during the first six months of 2016, Foreign Direct Investment flows in Malta increased by €0.5 billion over the corresponding period in 2015 with the main contributors being financial and insurance activities, which accounted for 95%. Furthermore, direct intermediation represents more than 7% of GDP.

Regulatory development kept expanding during 2016 with the timely transposition of several European Union Directives and Regulations as listed in the Appendices to the Report. Regulation and supervision remains robust with the World Economic Forum Competitiveness Report 2016-2017 placing Malta 16th out of 140 countries for the soundness of its banking system. Further development in regulation also took place through our Innovation through Regulation Programme with the introduction of the Notified Alternative Investment Funds under the Alternative Investment Fund Managers Directive.

Despite the various turbulences in the world economy and volatilities in the financial markets, business kept expanding and we have to continuously tap the labour market to keep the Authority properly staffed to provide the necessary level of supervision. Staff complement of 350 will be increased further in the coming year.

I thank all the staff and Board for their commitment to the Authority.

J V Bannister

Professor Joe V. Bannister

THE AUTHORITY
BOARD OF GOVERNORS

Front row left to right: Dr John Consiglio, Prof. Joe V. Bannister, Dr Lauren Ellul
Back row left to right: Dr Joseph Brincat, Dr Vanessa Bonnici, Mr Frans Camilleri, Mr Herbert Zammit Laferla, Dr Mario Vella

Chairman **Prof. Joe V. Bannister** B.Sc., M.Sc., D.Phil. (Oxon.)

Members **Dr Joseph Brincat** B.A.(Lond.), B.Sc.(Econ.) Lond., LL.D.

Mr Frans Camilleri DSS (Oxon.), Graduate Diploma (UEA), MA (UEA)

Dr John Consiglio Dip.FS., Dip. Law & Adm., Dip. Bus. Law & Accty., FCIB.,

MBA(Wales)., M.Phil (Eur. Studs)., Ph.D.

Dr Lauren Ellul B.Accty (Hons), Executive M.B.A.(Edinburgh & ENPC), F.I.A., C.P.A.,Ph.D (Birm.)

Dr Mario Vella B.A., M.Sc. (LSE), Dr. Sc. Oec (Berlin Humboldt)

Mr Herbert Zammit Laferla AIFS

Secretary **Dr Vanessa Said** B.A., M.A. LL.D

The Board of Governors is also the Listing Authority for the purpose of the Financial Markets Act (Cap. 345) and the Resolution Authority for the purpose of Directive 2014/59/EU.

SUPERVISORY COUNCIL

Chairperson

Ms Marianne Scicluna B.A (Hons.) Bnkg. & Finance, M.Sc (Fin. Reg. & Compliance Mngt.)
Director General

Members

Dr Marisa Attard LL.D, ACII
Director – Insurance and Pensions Supervision Unit

Dr Christopher Buttigieg B.Com. (Melit.), B. Accty. (Hons) (Melit.), M.A. Fin. Ser (Melit.), M.A. EU Law and Soc (Sussex), D.Phil Law Studies (Sussex), C.P.A.
Director – Securities and Markets Supervision Unit

Mr Karol Gabarretta B.A (Hons.) Econ., M.A (Fin. Serv.)
Director – Banking Supervision Unit

Ms Angele Galea St John BA (Hons) Accty, MSc (Risk Mgmt), CPA
Director - Authorisation Unit

Dr Michelle Mizzi Buontempo LL.D, M.A (Fin. Serv.)
Director – Conduct Supervisory Unit

Dr Michael Xuereb LL.D, M.A (Fin. Serv.)
Director - Regulatory Development Unit

Secretary

Dr Ann Marie Agius B.A. (Legal & Humanistic Studies), LL.D., M.A. Fin. Serv., Dip. Trib Ecc. Melit.
(January - August 2016)

Dr Petra Attard-Montalto (LLB) (Dip. Not.) (LLD) (LLM Commercial Law) (LLD)
(August-December 2016)

BOARD OF MANAGEMENT AND RESOURCES

Chairman

Mr Joseph Demanuele FCCA, FIA, CPA
Chief Operations Officer

Members

Mr Robert Aquilina Dip. Public Administration, MBA (Executive)
Head Communications Unit

Mr George Spiteri Dip. Social Studies (Industrial Relations), MSc. in Training and HR Mgt. (University of Leicester)
Director - Human Resources Development Unit

Ms Anne Marie Tabone B.A Hons, Accty. FIA, CPA
Director - Finance & Risk Management Unit

Mr Reuben Vella BSc. (Hons.), MSc.
Head Information and Communication Technologies Unit

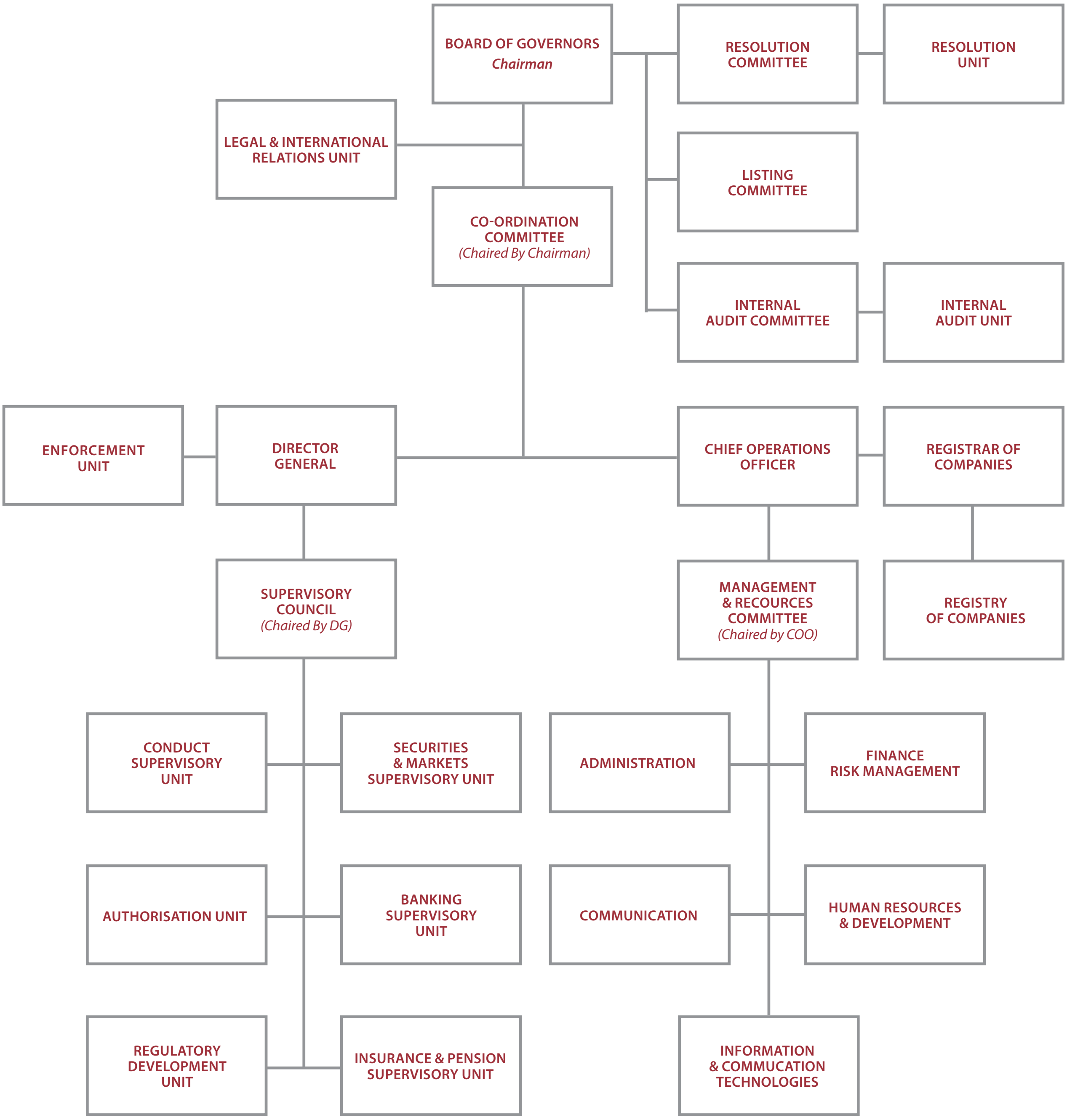
Secretary

Mr Colin McElhatton B.Sc (Hons), IS & Management (London)

ORGANISATION

The Malta Financial Services Authority (MFSA) was established in 2002 by the Malta Financial Services Authority Act (Cap 330). The Authority is the single regulator for the financial services sector which includes credit and financial institutions, securities and investment services companies, recognised investment exchanges, insurance companies, insurance intermediaries, pension schemes corporate service providers and trustees. The MFSA also incorporates the Registry of Companies and is responsible for the admissibility to listing on recognised investment exchanges as the Listing Authority .The MFSA is also the Resolution Authority with the Resolution Function being carried out the Resolution Unit.

The MFSA is an autonomous body and reports annually to Parliament. The main organs are the Board of Governors appointed by the Prime Minister, the Supervisory Council and the Board of Management and Resources. The three organs are co-ordinated through a Co-ordination Committee.



MFSA Organisation Chart

The Legal and International Relations Office is one of the statutory organs of the Authority and some of its primary functions are set out in the Act. These include the provision of legal advice and assistance to all the organs of the Authority. In addition to serving as secretary to the Board of Governors and the Co-ordination Committee and providing assistance to the various Units within the Authority, the Unit is also responsible for co-ordinating all legal international affairs.

Composition of the Co-ordination Committee

The Co-ordination Committee, as defined in Article 9(1) of the MFSA Act (Cap 330) is responsible for co-ordinating the implementation of the policies of the Authority. The Co-ordination Committee acts as the point of contact and the principal channel of communication and co-ordination between the Board of Governors, the Supervisory Council and the Board of Management and Resources. The Director Enforcement Unit attends as an observer.

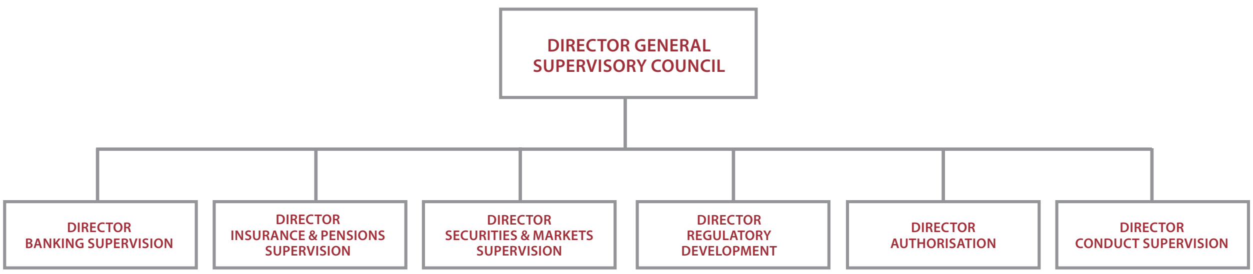
Composition of the Co-ordination Committee

CHAIRMAN - *Board of Governors*			
DIRECTOR GENERAL/ SUPERVISORY COUNCIL	REGISTRAR OF COMPANIES	CHIEF OPERATIONS OFFICER BOARD OF MANAGEMENT & RESOURCES	LEGAL & INTERNATIONAL RELATIONS

The Supervisory Council, as defined in Article 10 (1) of the MFSA Act, is responsible for the approval of and for the issuing of licences and other authorisations, for the processing of applications for such licence and authorisations, and for the monitoring and supervision of persons and other entities licensed or authorised by the Authority in the financial services sector.

The Supervisory Council is composed of the Authorisation Unit, the Regulatory Development Unit, the Conduct Supervision Unit, the Banking Supervision Unit, the Securities and Markets Supervision Unit and the Insurance and Pensions Supervision Unit.

The Supervisory Council



Banking Supervision Unit:
Responsible for the supervision of credit and financial institutions.

Conduct Supervision Unit:
Responsible for securing appropriate consumer protection in financial services through a supervisory regime seeking to address potential or emerging risks for financial services consumers. Also responsible for the supervision of trustees, fiduciaries and company service providers.

Insurance and Pensions Supervision Unit:
Responsible for the supervision of insurance companies, insurance intermediaries, retirement schemes, retirement funds and retirement service providers.

Securities and Markets Supervision Unit:
Responsible for the supervision of investment services companies, collective investment schemes, fund management and related fund services operations, admissibility to listing on recognised investment exchanges, trustees and oversight of financial markets.

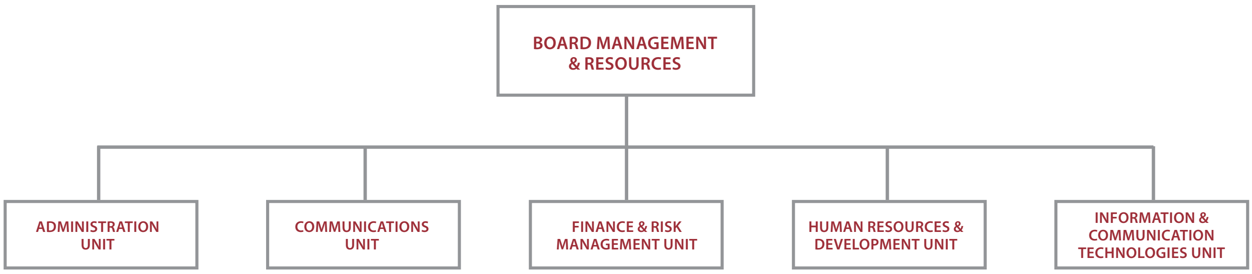
Regulatory Development Unit:
Responsible for research and development and the implementation of cross-sectoral policies, as well as financial stability and macro-prudential supervisory issues.

Authorisation Unit:
Responsible to manage and coordinate the processing of applications for authorisation under the various sectorial legislation.

MANAGEMENT UNITS

The Board of Management and Resources, as defined in Article 11(1) is responsible for carrying out the day-to-day management and the finances of the Authority including human resources, business development and ancillary services and for the general coordination of the Authority's administrative affairs, and is composed of the persons responsible for such activities within the Authority as may be designated by the Board of Governors.

Composition of the Board of Management & Resources



Administration Unit:
The Unit is responsible for the administrative function of the Authority. The day-to-day administrative functions include upkeep and maintenance of the premises, transport and logistics, security within the premises and other related matters.

Communications Unit:

The Unit's remit encompasses the functions for both information and public relations together with the provision of logistical support for events. It is also responsible for the preparation of corporate publications and for the development and maintenance of the Authority's internet and intranet site. The unit is also responsible for consumer education.

Finance & Risk Management Unit:

The Unit oversees and manages the finances of the Authority and is a support unit for all the regulatory and operational units. It prepares financial budgets and produces monthly management information. It sets, monitors and improves the operation of the MFSA's financial control framework ensuring compliance with policies and controls. The team is responsible for the collection of fees, payments to suppliers, computation of payroll, together with timely submission of financial statistics and information required by the Ministry of Finance, Board of Governors and other Government bodies. It co-ordinates with the Statutory Auditors, the annual audit of the Authority's Financial Statements drawn up in compliance with International Financial Reporting Standards. As part of the recent restructuring of this Unit, the functions also include responsibility for the development of a risk management framework for the organisation.

Human Resources and Development Unit:

The Unit is mainly responsible of staff recruitment, training and development and employee relations. The Unit is also responsible for identifying training needs in the financial services sector and for developing, creating and implementing training programmes in conjunction with the relevant professional training bodies and academic institutions. The Unit implements other staff related provisions included in the MFSA's Staff Handbook which include the MFSA Ethics Framework and Occupational Health & Safety.

Information and Communication Technologies Unit:

The Unit provides operational support to the other units and is responsible for managing the Authority's resources, efficiently supporting the overall business strategy. This is achieved with the provision of reliable ICT services, systems and technology, enabling the MFSA to maximise the value of its information and knowledge while working with a mixture of in-house and outsourced technology suppliers. The Unit has recently been assigned with a new remit to provide information security analysis to the Regulatory Units.

The Enforcement Unit

The Enforcement Unit is responsible for reviewing the actions and where necessary conducting investigations of licence holders who have, or are suspected of having committed serious compliance failures, serious misconduct, market abuse, breach of listing rules or any other serious breaches of the law. It furthermore investigates the actions of persons carrying on financial services activities without having the necessary licence or authorisation. Dr Anton Bartolo acts as Director of the Enforcement Unit.

Registry of Companies

The MFSA also houses the Registry of Companies. All registered information and documentation including company accounts and annual returns are publicly available. The Registrar of Companies is appointed in terms of the Companies Act and is entrusted with ensuring compliance with the provisions of the Act. Mr Joe Caruana acts as Registrar of Companies.

Listing Committees

The Listing Committees are appointed by the Board of Governors in terms of Article 14 of the Financial Markets Act (Cap. 345). In accordance with the Listing Rules and wholesale securities for primary markets, the Listing Committees are responsible for scrutinising applications prior to admission to listing and ensuring compliance with Listing Rules. The Listing Committee for the primary securities markets is chaired by Mr David Pullicino and has as members Dr Lauren Ellul, Mr Saviour Briffa and Dr Andre Camilleri, and mainly processes applications for the admissibility to the Malta Stock Exchange (MSE), while the Listing Committee for the Wholesale Securities Markets is chaired by Mr Saviour Briffa and this composed of Mr David Pullicino, Mrs Isabelle Agius and Mr Frans Camilleri and mainly processes applications for the admissibility to the Wholesale Securities Market (WSM).

Resolution

Following the upgrading to international standards of the Recovery and Resolution landscape through the introduction of the Recovery and Resolution Regulations (RRR) in September of 2015, the Resolution Unit was set up to gradually implement the requirements of these regulations. Mr Aldo Giordano acts as Director of the Resolution Unit.

The Resolution Committee is composed of three persons who are Mr Emanuele Ellul as Chairman, and Mr Paul Spiteri and Mr Alfred Sladden as members.

The Resolution Committee formally started functioning in terms of the legislation to set out the necessary direction for the Resolution Unit.

Internal Audit

The Internal Audit function within the MFSA has been established.

The Internal Audit Charter defines in general terms the purpose, scope of work, accountability, responsibility and authority of the Internal Audit function with the MFSA. It establishes the position of the Internal Audit function within the MFSA, authorises access to records, personnel and physical properties relevant to the performance of an audit engagement and defines the type and scope of the internal audit activities. Mr John Sammut acts as Director of the Internal Audit Unit.

The Education Consultative Council (ECC)

The terms of reference of the ECC include co-ordination and information sharing on matters related to training and career development for current and prospective employees within the financial services sector, including all employees of the Authority. The ECC provides input to the Authority on matters related to training and career development within the sector and co-ordinates initiatives aimed towards filling of skills gaps that may be identified within the sector from time to time.

The ECC is chaired by Dr John Consigilio. It includes representatives from the Human Resources Development Unit of the Authority, which also provides secretarial support, the Malta College of Arts Science and Technology (MCAST), the Student Services Education Division within the Department of Education, the Malta International Training Centre (MITC), the Institute of Financial Services Practitioners (IFSP), the Institute of Legal Studies (ILS), the Institute of Financial Services – Malta (IFS), and the Malta Institute of Accountants (MIA), Castille Institute, PricewaterHouse Coopers (PwC) Academy, Jobsplus, the Faculty of Economics, Management and Accountancy (FEMA) within the University of Malta and the Malta Institute of Management (MIM).

REGULATORY & MARKET OVERVIEW

2016 was characterised by unanticipated geopolitical developments that altered economic and financial market outlooks. The referendum in favour of the United Kingdom leaving the European Union led to speculation on the likely cross-border economic, financial and migratory impacts. Apart from sharp depreciations in sterling, market reaction following the Brexit vote was largely contained, as reflected in orderly repricing in financial markets. The US Presidential election repositioned the world's largest economy with Donald Trump's pledge of putting America's interests at the forefront of US policy. This led to mixed global reactions, together with concerns focused on potential disruptions to trade flows, cross-border cooperation and regulatory policy, the proposed expansionary US fiscal policy stimulus and a rise of US protectionism.

Notwithstanding geopolitical developments, economic growth in the Eurozone was moderate, primarily supported by lower oil prices, higher private consumption and accommodative monetary policy. Recovery was however, dampened by investment shortfalls. In recent years, global real interest rates were pushed downwards primarily in response to persistent stagnant economic conditions and deflationary pressures that prevailed following the global financial crisis. The European Central Bank (ECB) continues to engage in unconventional monetary policy stimulus to elevate subdued inflation and boost economic recovery. Monetary policy divergences across major economies remain, with uncertain future policy outcomes.

Malta's economic growth remained consistently above European Union and Euro Area averages, maintaining the exceptionally high growth momentum experienced over the past five years. Growth was primarily driven by developments in the export of services which have contributed to a current account surplus. Domestic favourable labour market conditions continued to drive unemployment downwards resulting in one of the lowest in the European Union. Inflation is slowly rising but remains relatively contained in view of the speed with which the economy is growing. Fiscal consolidation continued during the year registering lower deficit and government debt.

The financial services sector in Malta continues to be a main pillar of economic growth, expanding in size, diversity and attractiveness. The robustness of the sector is underpinned by a resilient regulatory framework based on strong prudential supervision, consumer protection, and money laundering prevention mechanisms, together with healthy capital and liquidity levels of banks and increased capital market opportunities as well as the settling in of the Solvency II regime in the insurance sector. Overall performance in the sector remains buoyant generating significant new employment opportunities within the direct financial intermediation and related professional service segments.

BANKING

General Overview

The domestic banking sector remained adequately capitalised, registering healthy liquidity and profitability levels, against an EU-wide environment characterised by low or negative interest rates.

The Maltese Banking Sector

The banking sector encompasses 27 credit institutions and a branch of an EU credit institution which operates in Malta in terms of the European Passporting Rights for Credit Institutions Regulations (2004). In addition, 126 branches and 215 Automated Teller Machines (ATMs) are located around the Maltese Islands offering a wide array of face-to-face and self-service banking activities. Table 1 refers.

Table 1: Branches and ATMs (2014 – 2016)

	2014	2015	2016
Bank Offices and branches	135	130	126
ATMs	206	211	215

Sources: ECB, Malta Financial Services Authority

For analytical purposes, the Maltese banking sector is categorised by three groups, namely 'core domestic banks', 'non-core domestic banks' and 'other banks'.[01] 'Core domestic banks' represents credit institutions that have a strong connection with the domestic economy. These institutions also account for a wide national branch network, provide a full range of banking services and are core providers of credit and depository services in Malta.[02] 'Non-core domestic banks' are institutions which play a smaller role within the domestic economy, since they provide limited operations and banking services to residents.[03] 'Other banks' represents credit institutions which have virtually no connection with the domestic economy.[04] Unless otherwise stated, the aggregate banking sector consists of all credit institutions authorised by the Authority and a branch of an EU credit institution which operates in Malta through the freedom of establishment.[05]

Figures relating to the volume and segmentation of business in 2016 of a number of credit institutions were still unaudited at the time of presentation of this report, and accordingly, may be subject to revision.

Capital Requirements Ratio and Tier 1 Capital Ratio[06]

The capital requirements ratio[07] and the Tier 1 capital ratio[08] of the Maltese aggregate banking sector both contracted by 1.1% when compared to 2015, primarily due to an increase in the aggregate risk weighted exposures against drops in the total own funds and Tier 1 capital reported by a number of banks.

[01] The methodology on the classification of banks can be found in the Financial Stability Report (2014) published by the Central Bank of Malta.

[02] The 'core domestic banks' are made up of the following credit institutions: APS Bank Limited, Banif Bank (Malta) plc, Bank of Valletta plc, HSBC Bank Malta plc, Lombard Bank Malta plc, Mediterranean Bank plc and Mediterranean Corporate Bank Limited.

[03] The 'non-core domestic banks' category consists of the following credit institutions: MFC Merchant Bank Limited, FCM Bank Limited, FIMBank plc, IIG Bank (Malta) Limited, Izola Bank plc and Sparkasse Bank Malta plc.

[04] 'Other banks' comprises of the following credit institutions: AgriBank plc, Akbank T.A.S., Credit Europe Bank N.V. (Branch Malta), Credorax Bank Limited, CommBank Europe Limited, ECCM Bank plc, Ferratum Bank Limited, NBG Bank Malta Limited, Nemea Bank Limited, Pilatus Bank Limited, Saadgroup Bank Europe Limited, Sata Bank plc, Turkiye Garanti Bankasi AS, Novum Bank Limited, and Yapi Kredi Bank Malta.

[05] Mediterranean Bank plc and Mediterranean Corporate Bank Limited were reclassified as core domestic banks in 2015. These two banks were previously classified as non-core domestic banks. In the same year, Credit Europe Bank N.V which was previously classified as a non-core domestic bank, was reclassified as falling under the 'other banks' category.

[06] Foreign branches which operate in Malta are not required to calculate the capital requirements ratio and consequently are not included in this analysis.

[07] Defined as the bank's total own funds to risk-weighted assets.

[08] Defined as the bank's tier 1 capital to risk-weighted assets.

As shown in Table 2, the core domestic banks strengthened their capital positions, reporting growth of 0.7 and 1% in the capital requirements ratio and Tier 1 capital ratio respectively when compared with the preceding year. In contrast, the capital requirements ratio and the Tier 1 capital ratio of the non-core domestic banks narrowed by 4.5 and 4% respectively over the same period. The other banks category also experienced declines of 7.9 and 10.2% in the capital requirement ratio and Tier 1 capital ratio respectively.

Table 2: Capital requirements ratio and Tier 1 Capital Ratio (2015 – 2016)

		2015	2016
Capital requirements ratio (%)	Core Domestic Banks	14.6	15.3
	Non-Core Domestic Banks	21.9	17.4
	Other Banks	56.6	48.7
	Aggregate Banking Sector	21.3	20.2
Tier 1 Capital Ratio (%)	Core Domestic Banks	11.9	12.9
	Non-Core Domestic Banks	18.6	14.6
	Other Banks	56.2	46.0
	Aggregate Banking Sector	18.8	17.7

Source: Malta Financial Services Authority

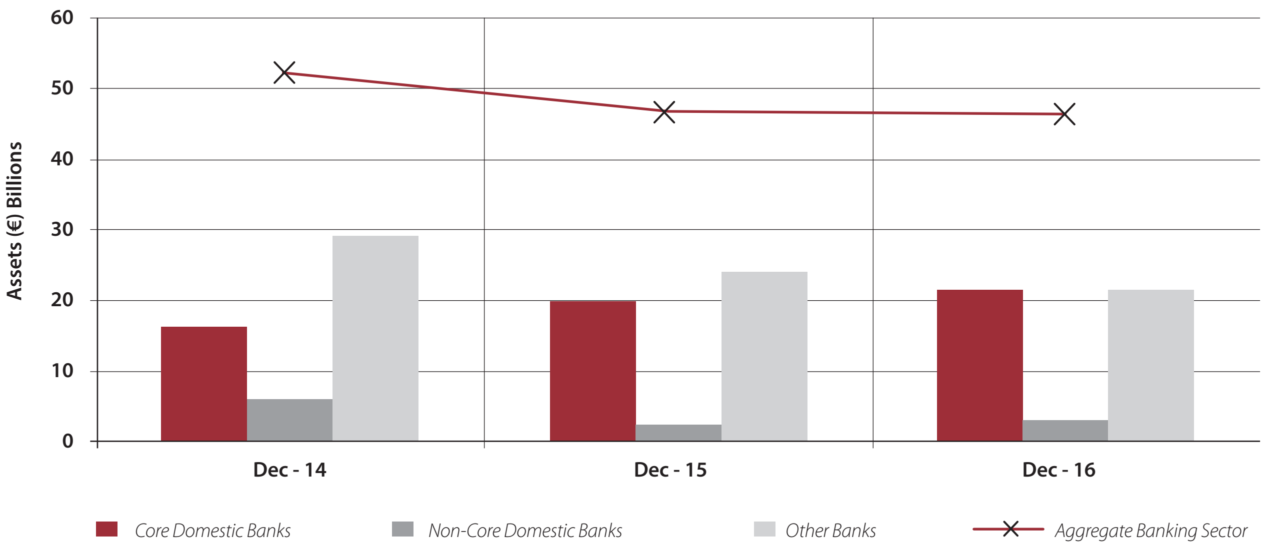
Despite these decreases, all banks licensed in Malta met the minimum required thresholds for both capital ratios in 2016. Also, the majority of them well exceeded these thresholds.

Bank Assets

Assets in the aggregate banking sector totalled €45.7 billion, a decline of almost one billion euro (or 2.1%) for the year ending December 2016. Total assets in the core domestic banking and non-core domestic banking sectors increased by 5.6% and 7.7% respectively over the same period, while total assets in the other banks category fell by 9.5%.

Chart 1 shows a trend analysis of the assets of the aggregate banking sector and the three categories of banks for the period 2014 – 2016.

Chart 1: Assets (2014 – 2016)



Source: Malta Financial Services Authority

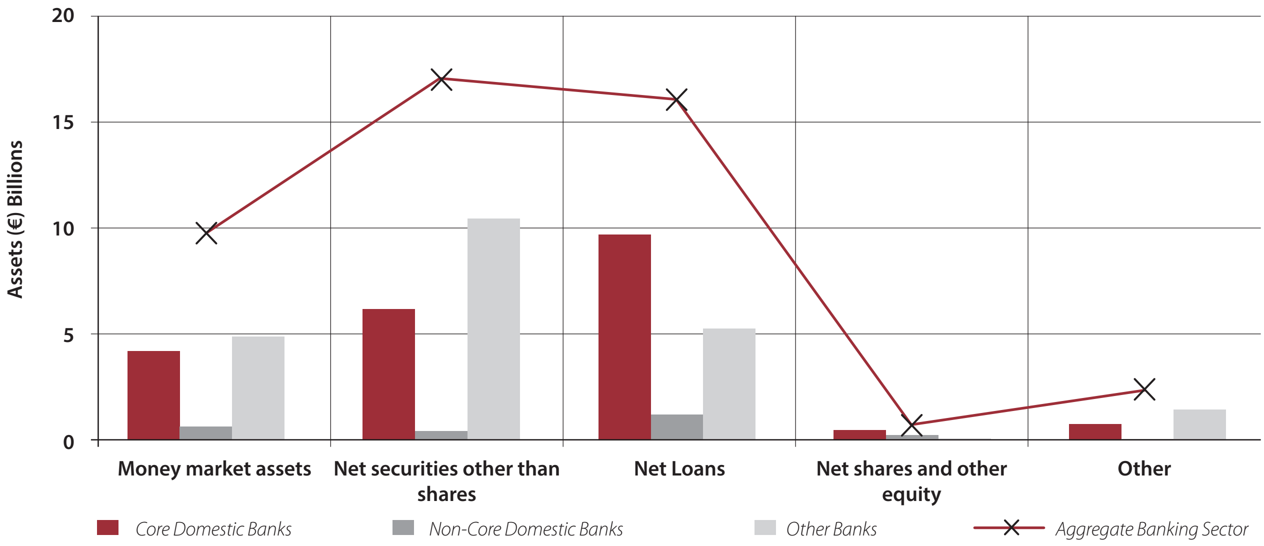
Allocation of Bank Assets

Assets in the aggregate banking sector are mainly composed of 'net securities other than shares' with a share of 37.2%, 'loans' at 35% and 'money market assets' at 21.1% of total assets. While the share of 'net securities other than shares' contracted by 3.8% when compared to 2015, the proportion of 'loans' and 'money market assets' grew by 0.7% and 1.9% respectively.

In the core domestic banking sector, 'loans' remained the main asset component with a share of 45.3% of the total assets in 2016, although this represents a fall of 1.6% from the previous year. 'Net securities other than shares' contributed to 29.2% of core domestic bank assets, a decline of 2.7% from 2015. In contrast, the share in 'money market assets' increased by 4.5% to 19.8% of bank assets in 2016.

Chart 2 illustrates the distribution of assets of the aggregate banking sector and the three categories of banks in Malta in 2016.

Chart 2: Distribution of assets (2016)



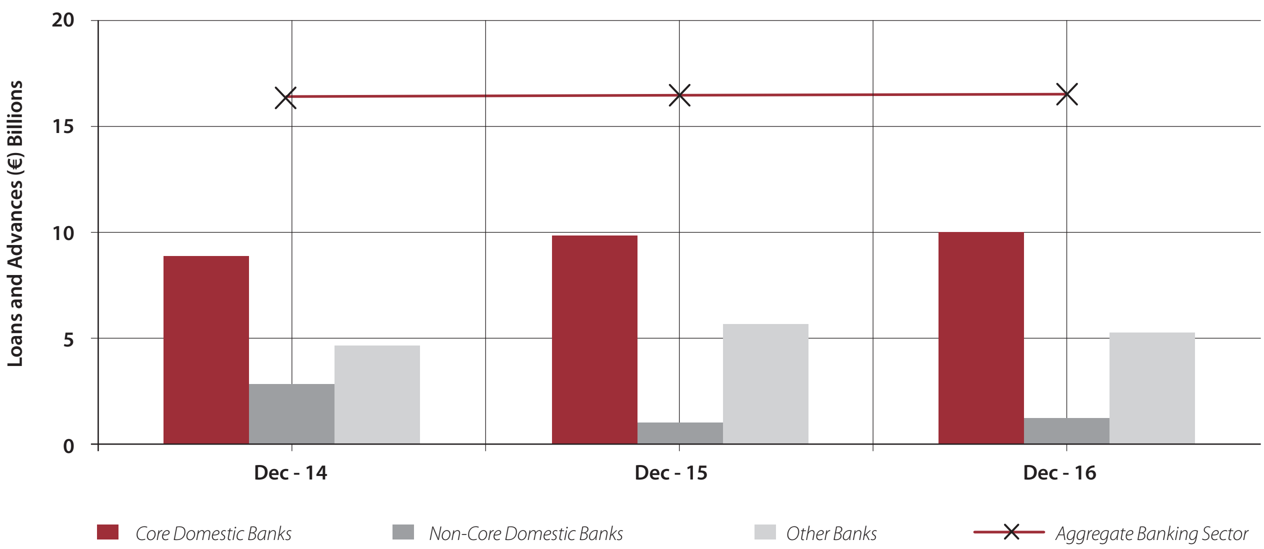
Source: Malta Financial Services Authority

Loans and advances

Loans and advances granted in the aggregate banking sector remained almost unchanged at €16.5 billion. Over the period 2015 – 2016, loans advanced by the core domestic banks and non-core domestic banks expanded by 1.3% and 20.6% respectively. In contrast, banks which fall in the other banks category reported a decline of 6.3% over the same period.

Chart 3 presents the loans and advances granted by the three categories of banks and the aggregate banking sector for the period 2014 – 2016.

Chart 3: Loans and advances (2014 – 2016)



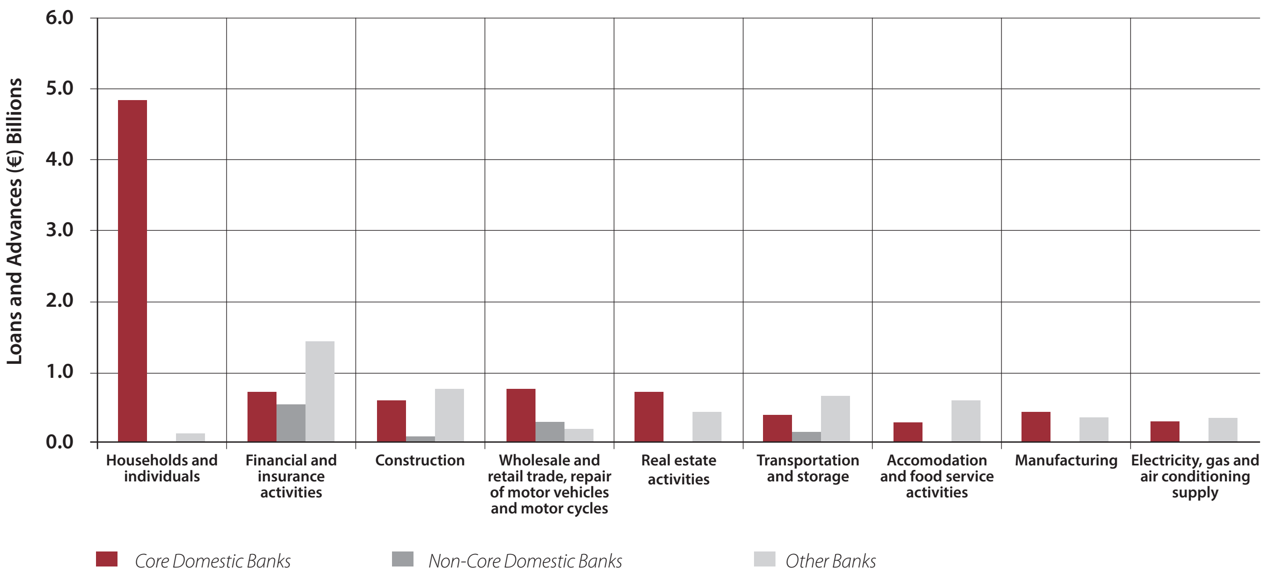
Source: Malta Financial Services Authority

Lending to 'households and individuals' exceeded five billion euro, an increase of 6.3% compared to 2015. This represents 30.5% of the total loans granted in the aggregate banking sector. Loans advanced to 'financial and insurance activities', which made up 16.6% of the total loans, declined by 6% over the previous year. Almost €1.3 billion were borrowed by the 'construction sector', representing a decline of 4.6% over the period 2015 – 2016.

In the domestic banking sector, loans granted to 'households and individuals' totalled €4.9 billion or 49% of the total lending of the core domestic banks. This represents an increase of 5% on the previous year. Loans advanced to the 'wholesale and retail trade, repair of motor vehicles and motor cycles' sector contracted by 5.8% to stand at €0.8 billion at the end of 2016. In contrast, lending to 'financial and insurance activities', which had the third largest share at 7.6% of total loans, reached €0.75 billion at the end of 2016. This represents an increase of almost 30% when compared to 2015.

Chart 4 represents a sectoral analysis of loans granted by all three categories of banks as well as aggregate figures for 2016.

Chart 4: Loans and advances - top nine sectors (2016)

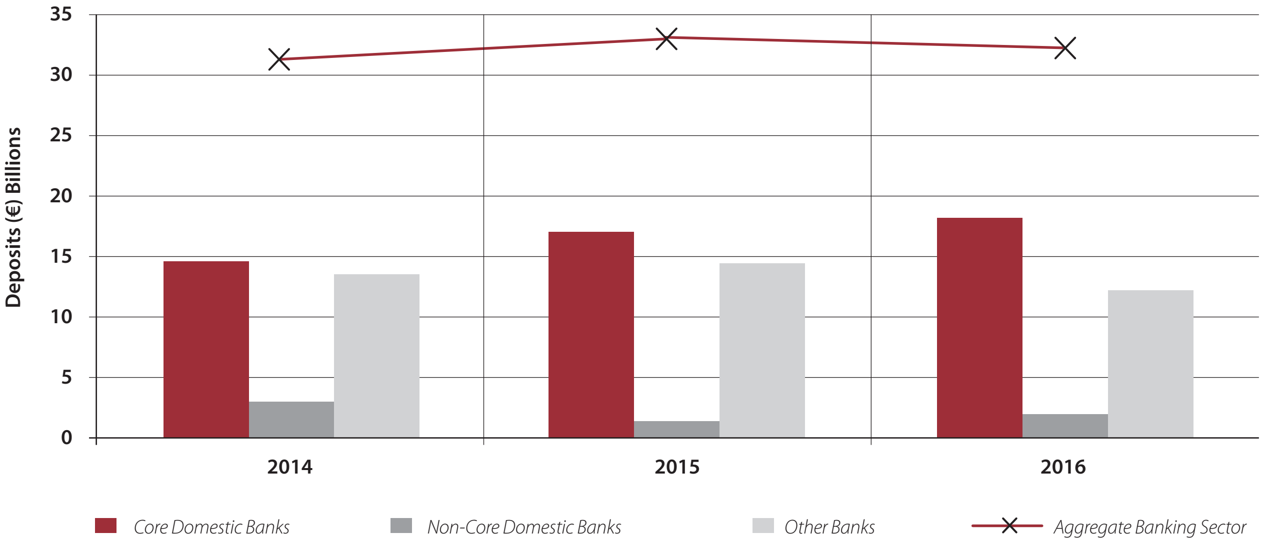


Source: Malta Financial Services Authority

Bank Deposits

Bank deposits reported by the aggregate banking sector totalled €31.9 billion, a fall of almost one billion euro, or 3% compared to 2015. The core domestic banks reported an increase of almost one billion euro, or 5.7%, to stand at €18 billion in 2016. Deposits held by the non-core domestic banks increased by €0.4 billion (or 27.5%) reaching €1.9 billion at the end of the year. In contrast, deposits in the other banks category went down by €2.4 billion or 16.5% over the past year. Chart 5 refers.

Chart 5: Deposits (2014 – 2016)



Source: MaltaSource: Malta Financial Services Authority

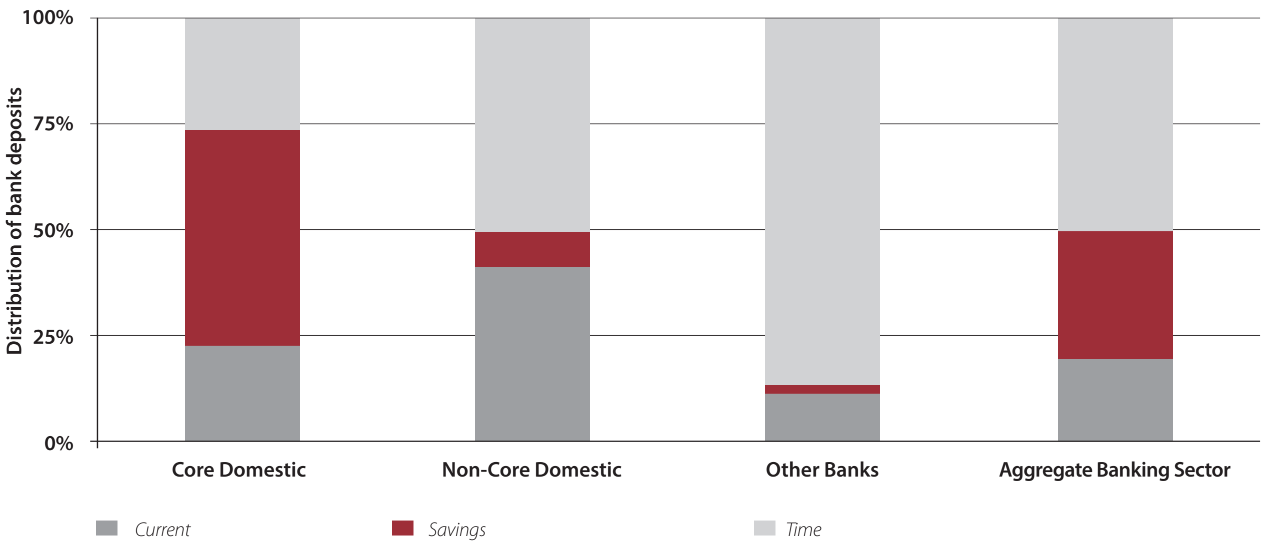
Distribution of bank deposits

In the aggregate banking sector, 50% of deposits were held in time deposit accounts, followed by savings accounts at 30% and current accounts at 20%. When compared to 2015, time deposits declined by 6.1% while savings and current accounts grew by 3.9 and 2.2% respectively.

In the core domestic banking sector, 51% of deposits were held in savings accounts, 26% in time deposits and 23% in current accounts. While each of current accounts and savings accounts increased their share by 2%, compared to 2015, time deposits accounts fell by 4%.

Chart 6 represents the distribution of bank deposits in the aggregate banking sector and the three categories of banks in Malta in 2016.

Chart 6: Distribution of deposits (2016)



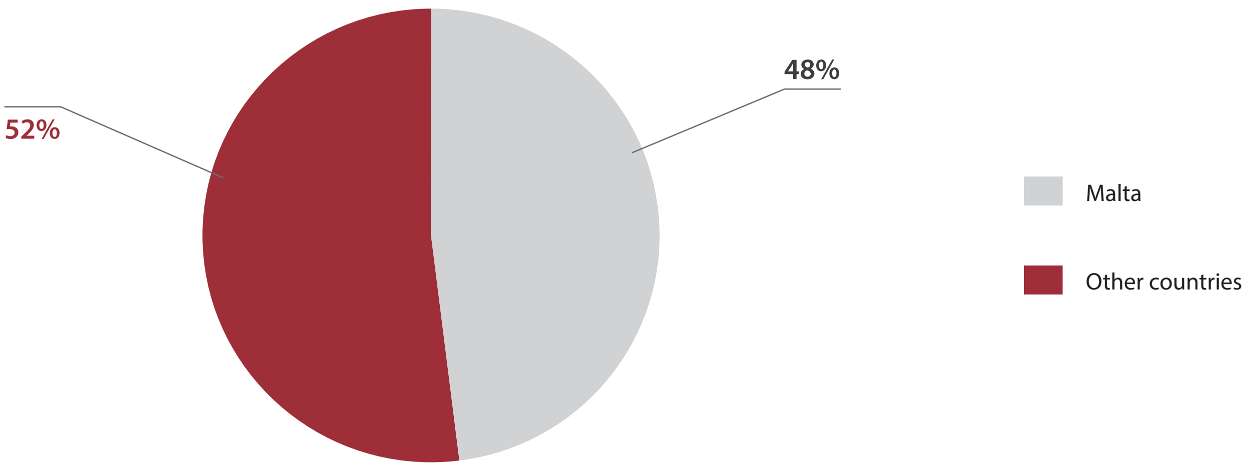
Source: Malta Financial Services Authority

Lending and borrowing

In the aggregate banking sector, Maltese residents (mainly households and non-financial corporations) had a share of 48% of total placements and loans advanced in 2016. This indicates a surge of 6% from 2015. The remaining 52% were granted to non-Malta residents, primarily to monetary financial institutions.

Chart 7 shows the distribution of banks' placements and loans by residency in 2016.

Chart 7: Placements and loans (2016)

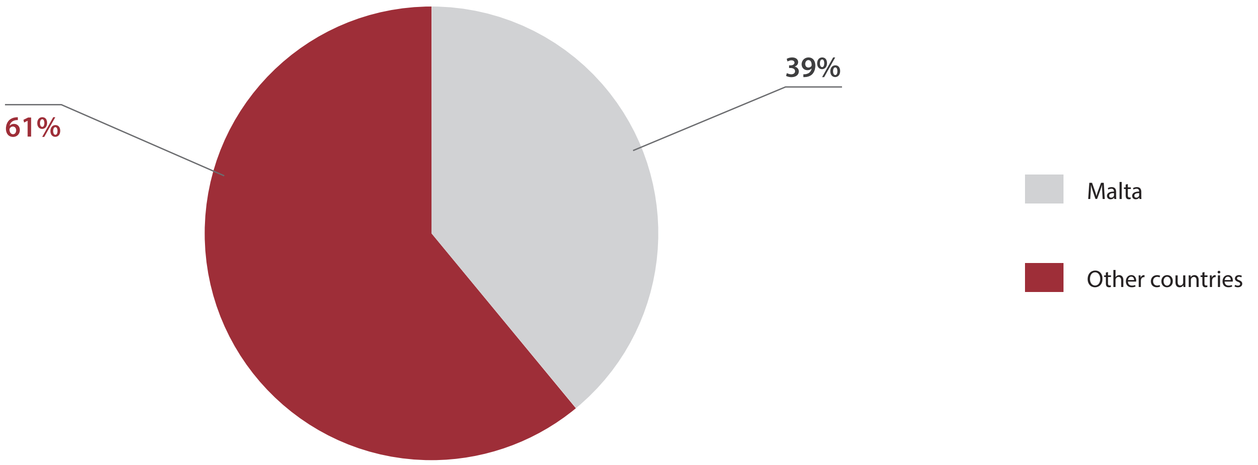


Source: Malta Financial Services Authority

In 2016, 39% of total borrowings and deposits in the aggregate banking sector were held by Maltese residents. This represents an increase of 3% from the preceding year. Non-Maltese residents owned the remaining 61%.

Chart 8 shows the distribution of the banks' borrowings and deposits by residency in 2016.

Chart 8: Borrowings and deposits (2016)



Source: Malta Financial Services Authority

SECURITIES AND INVESTMENT SERVICES

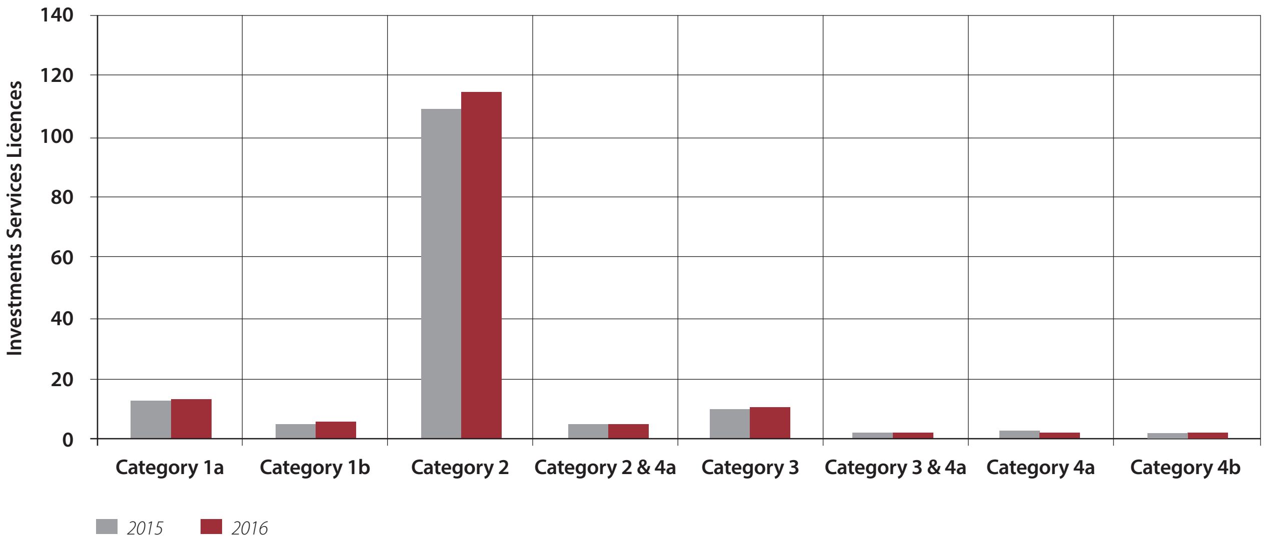
General Overview

Investment services remains one of the fastest growing segments within Malta's financial services sector, with the EU Alternative Investment Fund Managers Directive (AIFMD) expanding market access at a European level.

Investment Services Licences

There were 156 investment services companies licensed in terms of the Investment Services Act (Cap 370), a net increase of seven licenses from the previous year. The majority of these companies (77%) are licenced at Category 2 level. Chart 9 depicts the number of licensed investment services companies by category of licence for the period 2015 – 2016.

Chart 9: Investment services licences (2015 – 2016)



Source: Malta Financial Services Authority

The Maltese Capital Market

In 2016, 10 corporate bond issues were approved and admitted to listing on the MSE by the Listing Authority, along with one equity issue and six MSE issues, for an aggregate nominal value of almost €1.1 billion. This represents an increase of 34.6% over the previous year.

The total market turnover on the Malta Stock Exchange was €0.69 billion in 2016, a decline of over 25% over the preceding year. Trading in the equity market dropped by 4.5%, from €81.5 million in 2015 down to €77.8 million in 2016. Trading in the corporate bond market also decreased by 3.3%, totalling €57.9 million at the end of the year. There was a decrease of 29% in the trading of Malta Government Stocks, from €777 million in 2015 to €552 million in 2016.

Additionally, one asset backed security, two bond issues and three note issues were approved and admitted to listing on the European Wholesale Securities Market.

Collective Investment Scheme Licences

The Authority licensed 113 new funds (including sub-funds) in 2016, of which 19 (or 16.8%) were licensed as Alternative Investment Funds (AIF), 71 (or 62.8%) as Professional Investment Funds (PIF) and 23 (or 20.4%) as UCITS funds. Moreover, two funds were included in the list of notified AIFs.

Over the course of the year, the Authority accepted the surrender of 73 fund licences (including sub-funds), made up of 51 PIF licences, eight AIF licences, and 14 UCITS licences.

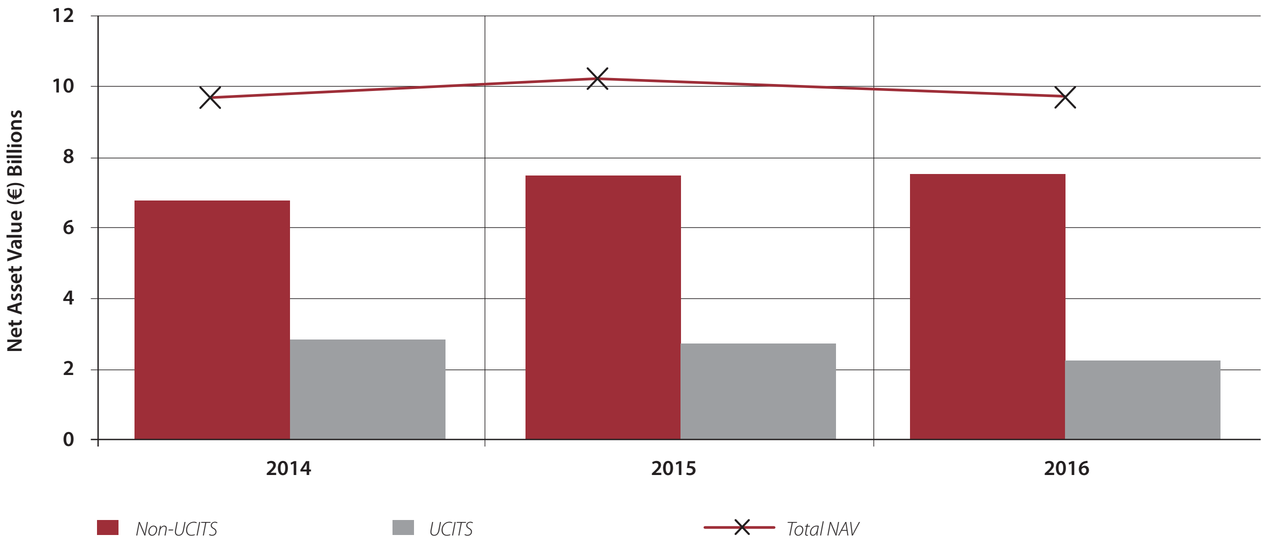
Furthermore, there were 188 non-Malta domiciled funds (including sub-funds) administered by locally based fund administrators and 133 non-Malta domiciled funds (including sub-funds) managed by fund managers established in Malta.

For the following sections, the NAV figures available for a number of funds for the year under review were still provisional at the time of presentation of this report and accordingly may be subject to revision.

Net Asset Value of Malta Domiciled Funds

The aggregate NAV of funds domiciled in Malta declined by 4.4% to €9.8 billion at the end of 2016. Net assets of Non-UCITS funds grew by 0.5%, up from €7.53 billion in 2015 to €7.57 billion in 2016. In contrast, UCITS funds experienced a fall of almost 18% in net assets over the same period to stand at €2.2 billion in 2016. Chart 10 refers.

Chart 10: Net asset value of Malta domiciled funds (2014 – 2016)



Source: Malta Financial Services Authority

Equity funds were the best performers in 2016 with net assets expanding by more than 14% and reaching almost three billion euro at the end of 2016. Property funds reported an increase of almost 10%, with net asset totalling €0.29 billion in 2016. In contrast, net assets of bond funds declined by 6.6% to stand at €1.5 billion at the end of 2016. Diversified funds and mixed funds experienced falls of 10.9% and 8.5% respectively during the same period.

Management of Malta Domiciled Funds

As shown in Table 3, almost 37% of the funds as at end of 2016 were set up as self-managed funds, an increase of 4.2% over 2015. Funds managed by locally established fund managers declined slightly by more than 1% while funds managed from outside Malta contracted by almost 3% over the same period.

Table 3: Management of Malta domiciled funds (2015 – 2016)

	% number of funds (including sub-funds) as at end 2015	% number of funds (including sub-funds) as at end 2016
Self-managed	32.7	36.9
Managed in Malta	31.8	30.5
Managed from outside Malta	35.5	32.6

Source: Malta Financial Services Authority

Administration of Malta Domiciled Funds

The share of funds domiciled and administered in Malta continues to increase with more than 84% of the funds being administered by locally established fund administrators. The remaining 16% of the funds were administered outside Malta, a decline of more than 3% from end 2015. Table 4 refers.

Table 4: Administration of Malta domiciled funds (2015 – 2016)

	% number of funds (including sub-funds) as at end 2015	% number of funds (including sub-funds) as at end 2016
Administered in Malta	81.0	84.1
Administered from outside Malta	19.0	15.9

Source: Malta Financial Services Authority

Net Asset Value of Non-Malta domiciled funds administered in Malta

Net assets of non-Malta domiciled funds which are administered by fund administrators recognised in Malta reached €2.7 billion at the end of 2016. This was an increase of almost 45.7% from the previous year.

Non-Malta domiciled funds managed in Malta

There were 133 non-Malta domiciled funds (including sub-funds) managed by fund managers established in Malta with assets under management totalling €23.8 billion as at the end of 2016.

INSURANCE AND PENSION ACTIVITIES

General Overview

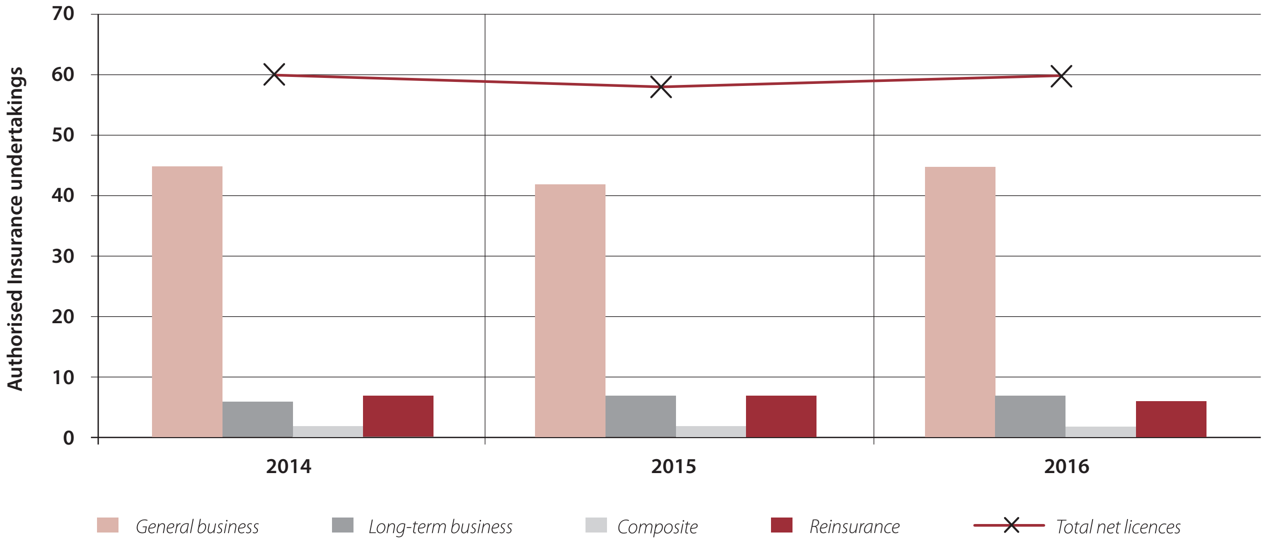
Malta remains an attractive jurisdiction for the setting up or redomiciliation of captive and other insurance and reinsurance business. The number of Protected Cell structures also remains on the increase. The retirement pensions sector also maintained a positive trend with the establishment of more retirement schemes.

The Insurance Sector

The Maltese insurance sector consists of 45 undertakings licensed to carry on general business, seven long-term business undertakings, two composite and six pure reinsurance undertakings. Over the course of the year, the Authority licensed three new non-life insurance undertakings in terms of the Insurance Business Act (Cap 403), of which one was authorised as a captive reinsurance undertaking. Of the 60 licensed insurance undertakings, eight are captive insurance undertakings and 12 are Protected Cell Companies (PCC). In 2016, three new cells were also approved by the Authority to write business in terms of the Companies Act (Cap 386) (Cell Companies Carrying on Business of Insurance) Regulations (2004). This brings the total number of approved cells within PCCs up to 32.

Chart 11 provides an illustration of the number of licensed insurance undertakings by type of business for the period 2014 – 2016.

Chart 11: Insurance undertakings authorised in Malta (2014 – 2016)



Source: Malta Financial Services Authority

Additionally, the Authority licensed the first Reinsurance Special Purpose Vehicle (RSPV) in terms of the Reinsurance Special Purpose Vehicles Regulations (2016). The RSPV was constituted as a Securitisation Cell Company in accordance with the Securitisation Cell Companies Regulations (2014).

Figures available with respect to the volume and segmentation of insurance and reinsurance business for 2016 are still provisional at the time of presentation of this report and therefore may be subject to revision.

Solvency Ratios

Following the transition from Solvency I to Solvency II which became effective from 1 January 2016, insurance and reinsurance undertakings started reporting new quantitative requirements under the new regime. Accordingly, the following solvency ratios are not comparable to the ratios presented in the previous years. As shown in Table 5, on aggregate, the ratio of eligible own funds to solvency capital requirements in the insurance sector was 346.7%. The ratio stood at 226% in the general business sector and 279.1% in the long-term business sector. Pure reinsurance undertakings reported an aggregate ratio of 489.7%.

Table 5: Solvency ratios (2016)

		2016
Ratio of eligible own funds to Solvency Capital Requirements (%)	General Business	226.0
	Long-term Business	279.1
	Pure Reinsurers	489.7
	All Insurance undertakings	346.7
Ratio of eligible own funds to Minimum Capital Requirements (%)	General Business	596.8
	Long-term Business	711.8
	Pure Reinsurers	1093.6
	All Insurance undertakings	847.5

Source: Malta Financial Services Authority

On aggregate, the ratio of eligible own funds to minimum capital requirements was 847.5%. The general business and long-term business sectors reported ratios of 596.8% and 711.8% respectively. For pure reinsurance undertakings, the ratio was 1093.6%.

Total gross written premiums

The total gross written premiums of insurance undertakings authorised in Malta declined marginally by 0.5% to stand at €3.82 billion at the end of the year. Over the period 2015 – 2016, the gross written premiums increased by 1.9% in the general business sector and contracted by 6.2% in the long-term business sector. Table 6 refers.

Table 6: Gross written premiums of insurance undertakings licensed in Malta (2014 – 2016)

	2014	2015	2016
	Billion €	Billion €	Billion €
Total gross written premiums	2.83	3.84	3.82

Source: Malta Financial Services Authority

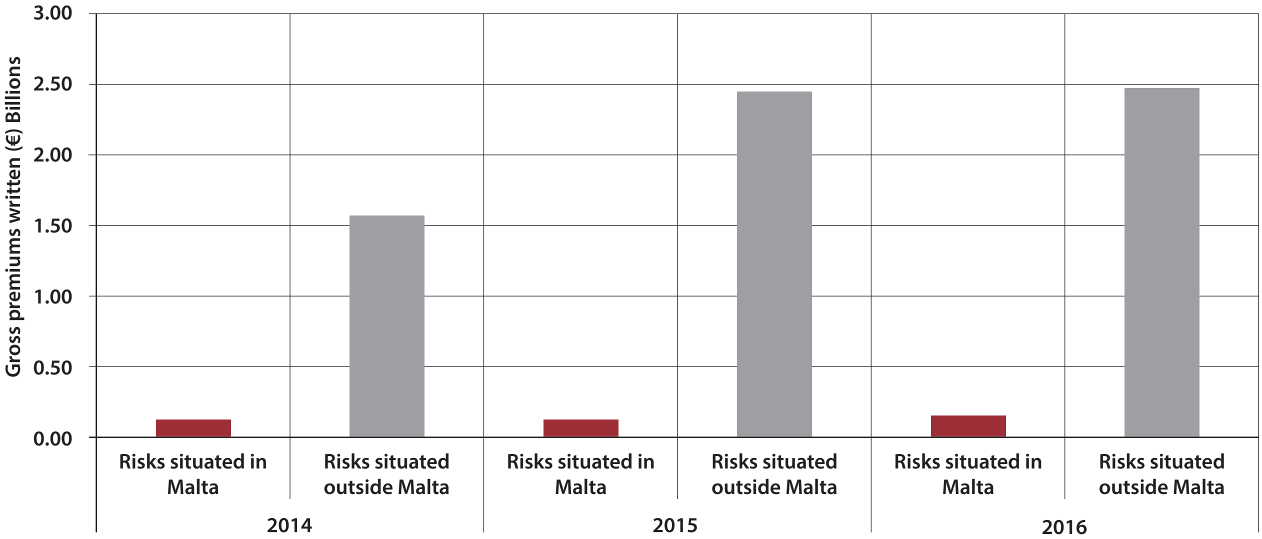
General Business Sector

Gross written premiums

The gross written premiums in respect of the general business written in and outside Malta expanded by almost 2%, from €2.57 billion in 2015 to €2.62 billion in 2016. Gross written premiums in relation to risks situated in Malta increased by almost 14.7%, reaching €138.2 million in 2016, while gross written premiums in relation to risks situated outside Malta went up marginally by 1.2%, from €2.45 billion in 2015 to €2.48 billion in 2016.

Chart 12 shows the gross written premiums of companies with Head Office in Malta writing general business in relation to risks situated in and outside Malta for the period 2014 – 2016.

Chart 12: Gross written premiums by undertakings with Head Office in Malta - General Business (2014 – 2016)



Source: Malta Financial Services Authority

Gross Claims Paid

The gross claims paid in respect to the general business declined by almost 20%, to stand at almost one billion euro. In respect of risks situated in Malta, gross claims paid increased by 6.8% to €59.5 million. In contrast, gross claims paid in respect of risks situated outside Malta contracted by 21.3% when compared with the previous year.

Table 7 represents the gross claims paid by undertakings with Head Office in Malta writing general business split by type of risk for the period 2014 – 2016.

Table 7: Gross claims paid by undertakings with Head Office in Malta – General Business (2014 - 2016)

	2014		2015		2016	
	Risks situated in Malta	Risks situated outside Malta	Risks situated in Malta	Risks situated outside Malta	Risks situated in Malta	Risks situated outside Malta
	Million €	Million €	Million €	Million €	Million €	Million €
Gross claims paid	52.65	773.94	55.71	1,190.33	59.48	937.27

Source: Malta Financial Services Authority

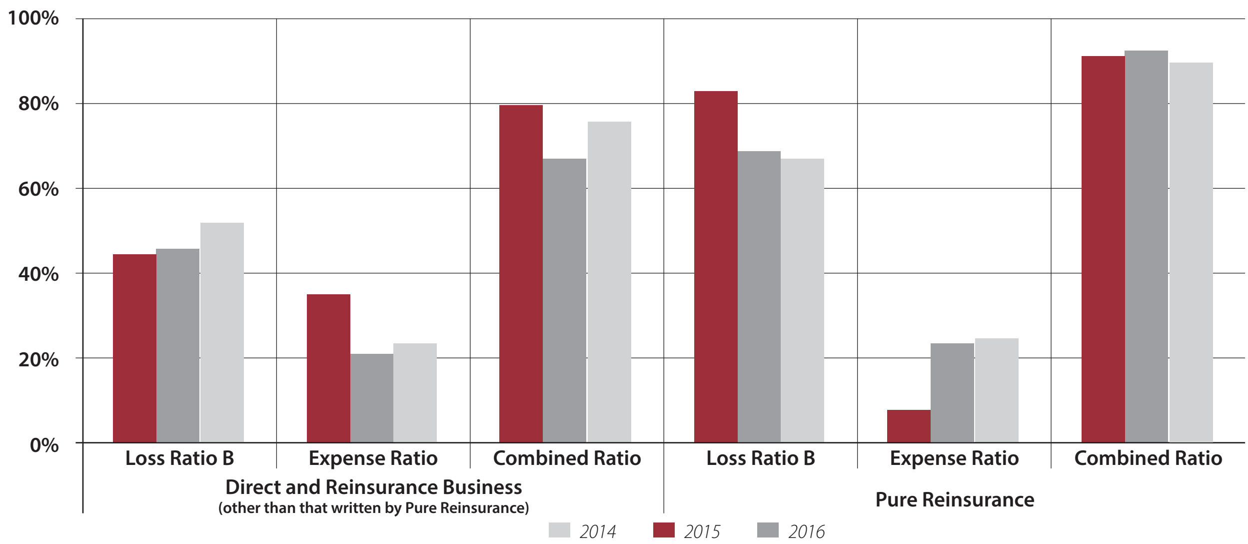
Key financial indicators

In the general business[09], the net loss ratio[10] increased by 6%, from 45.7% in 2015 to 51.7%. The expense ratio[11] increased by 3.4% reaching 21.6%, while the combined ratio[12] went up from 67.4% in 2015 to 76.7% in 2016.

For the pure reinsurance business, the net loss ratio fell by 2.4% to 66.7%. The expense ratio touched 24%, a marginal increase of 0.3% over 2015 while the combined ratio declined by 2.1% to 90.7%.

Chart 13 illustrates the net loss ratio, expense ratio and combined ratio for general business and pure reinsurance undertakings covering the period 2014 – 2016.

Chart 13: Loss ratios for general business undertakings writing direct and reinsurance business (other than that written by pure reinsurance) and pure reinsurance undertakings (2014 – 2016)



Source: Malta Financial Services Authority

Long-term Insurance Sector

Gross written premiums

Gross written premiums in respect of long-term business contracted by more than 6%, from €1.28 billion in 2015 to €1.20 billion. Gross written premiums where Malta is the country of commitment expanded by 11.7% while gross written premiums with respect to commitments outside Malta decreased by 11.9% over the same period.

Chart 14 represents the gross written premiums of undertakings writing long-term business in relation to risks situated in and outside Malta for the period 2014 – 2016.

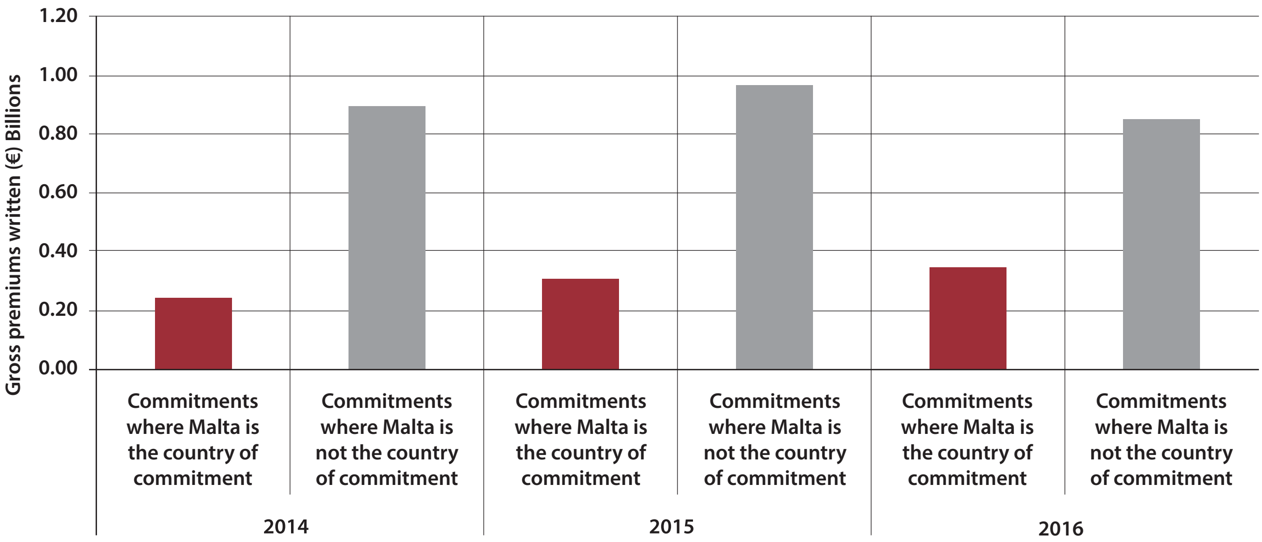
[09] Direct and reinsurance business other than that written by pure reinsurance undertakings.

[10] The net loss ratio is defined as the ratio of net claims incurred to net premiums earned.

[11] The expense ratio is defined as the ratio of net operating expenses to net premiums earned.

[12] The combined ratio is defined as the sum of net claims incurred and the net operating expenses over the net earned premiums.

Chart 14: Gross written premiums by undertakings with Head Office in Malta – Long-term business (2014 – 2016)



Source: Malta Financial Services Authority

Gross Claims Paid

Gross claims paid by insurance undertakings writing long-term business declined by almost 52% when compared to 2015. Gross claims paid with respect to risks situated in Malta increased by 21.7% while gross claims paid in respect to risks outside Malta decreased by 58.3%. Table 8 refers.

Table 8: Gross claims paid by undertakings with Head Office in Malta – Long-term business (2014 - 2016)

	2014		2015		2016	
	Commitments where Malta is the country of commitment	Commitments where Malta is not the country of commitment	Commitments where Malta is the country of commitment	Commitments where Malta is not the country of commitment	Commitments where Malta is the country of commitment	Commitments where Malta is not the country of commitment
	Million €	*Million €*	*Million €*	*Million €*	*Million €*	*Million €*
Gross claims paid	156.0	818.0	162.8	889.9	198.1	371.2

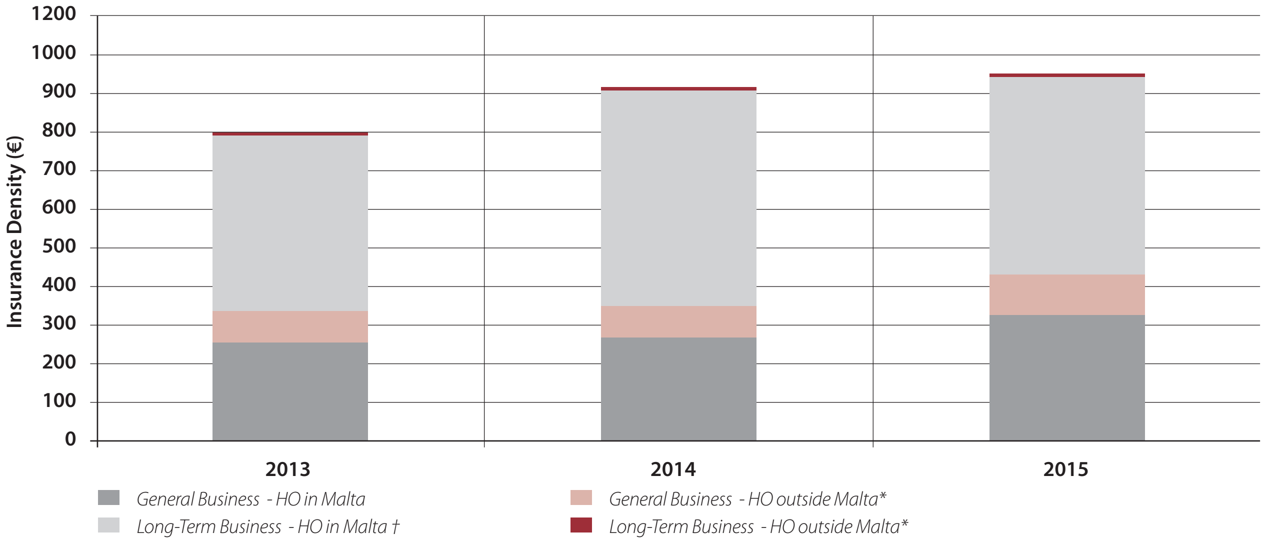
Source: Malta Financial Services Authority

Figures for undertakings with Head Office outside Malta writing general and long-term business in relation to risks in Malta during 2016 were unavailable at the time of preparation of this report. Consequently, the analysis of the insurance density and insurance penetration covers the period 2013 – 2015.

Insurance Density

As depicted in Chart 15, the insurance density, defined as the ratio of gross written premiums in respect of risks and commitments based in Malta to population size, increased by 16% (or €146.7) to stand at €1,061 in 2015. In the general business category, insurance density declined by 1.1%, from €350 in 2014 to €346 in 2015. In the long-term business category, insurance density expanded by 26.5%, from €565 in 2014 to €715 in 2015.

Chart 15: Insurance density with respect to risks and commitments situated in Malta (2013 - 2015)



Source: Malta Financial Services Authority

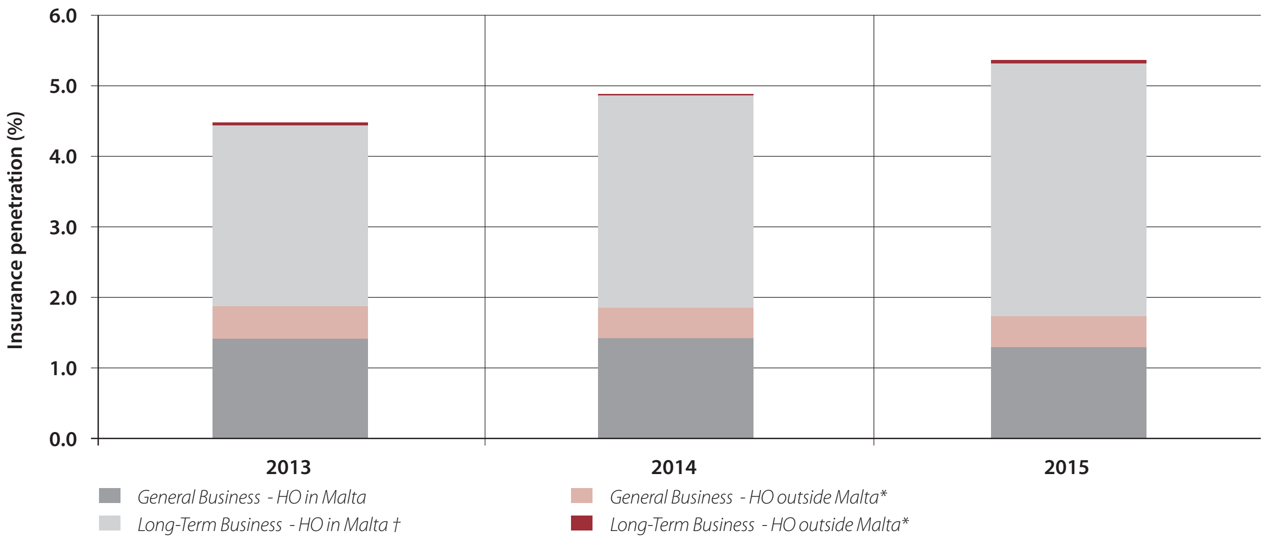
** refers to non-EU/EAA insurers authorised under the Act and EU/EEA insurers carrying out business in Malta under the right of establishment or through agents (in the long-term business). † Long-term business includes investment contracts without discretionary participation features.*

Insurance Penetration

The insurance penetration rate, defined as the ratio of gross written premiums in respect of risks and commitments in Malta to gross domestic product[13], increased from 4.9% in 2014 to 5.2% in 2015. For the general business, the penetration rate declined from 1.9% in 2014 to 1.7% in 2015. For the long-term business, the penetration rate expanded by 0.5%, from 3.0% in 2014 to 3.5% in 2015. Chart 16 refers.

[13] GDP is computed at market price (Sourced from National Statistics Office).

Chart 16: Insurance penetration rate with respect to risks and commitments situated in Malta (2013 - 2015)



Source: Malta Financial Services Authority

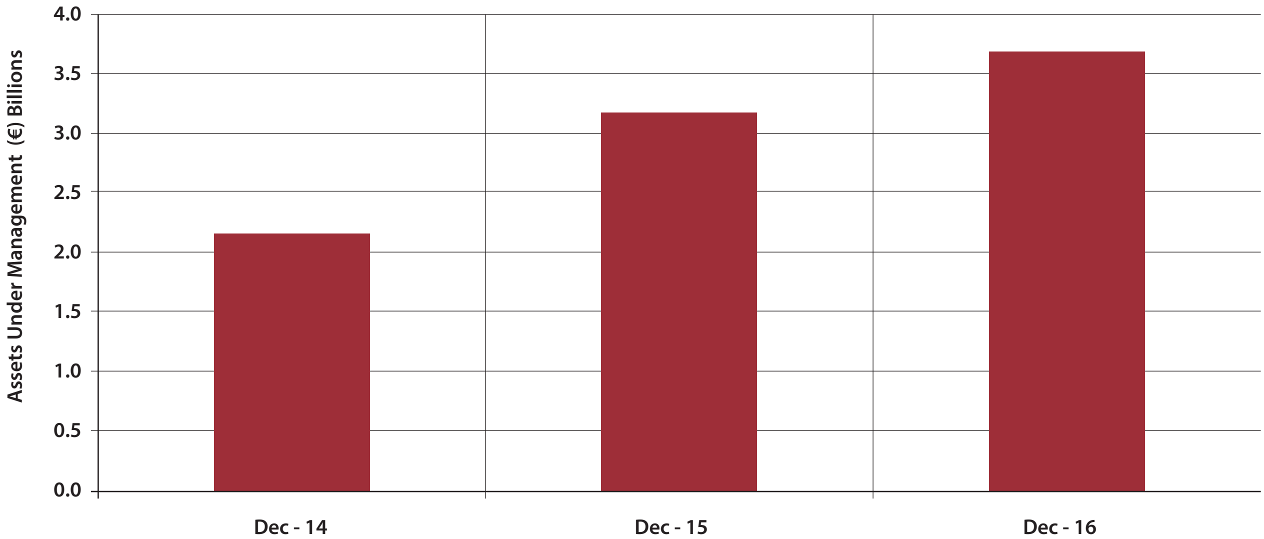
** refers to non-EU/EAA insurers authorised under the Act and EU/EEA insurers carrying out business in Malta under the right of establishment or through agents (in the long-term business). † Long-term business includes investment contracts without discretionary participation features.*

PENSIONS SECTOR

Retirement Pension Schemes

There were 46 retirement schemes registered in Malta at the end of 2016, ten more than the previous year. The majority of these retirement schemes are personal retirement schemes. Assets under management held by retirement pension schemes reached €3.7 billion euro at the end of 2016, an increase of more than 14.8% over the previous year, as shown in Chart 17.

Chart 17: AUM of retirement pension schemes (2014 - 2016)



Source: Malta Financial Services Authority

SUPERVISION AND COMPLIANCE

The Supervisory Council is responsible for the processing, approval and issuing of licences and other authorisations, and for the monitoring and supervision of entities and individuals licensed or authorised by the Authority. During 2016 the Council met 44 times to approve new licences, decide on compliance and other supervisory issues, sanction breaches of licence conditions and take other regulatory measures.

Applicants for licences must satisfy the requirements contained in the relevant legislation and comply with the ongoing obligations under the relevant licence issued. The criteria taken into consideration in the granting or refusal of licences include the general interests and legitimate expectations of consumers of financial services; the promotion of fair competition and choice and Malta's international commitments including its commitments as a Member of the European Union.

As a signatory to the Multilateral Memoranda of Understanding on co-operation and information exchange of the International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities Commissions (IOSCO), the MFSA's approach to supervision is modelled on IAIS and IOSCO Core Principles as well as on EU legislation. With respect to banking, the Authority forms an integral part of the Single Supervisory Mechanism (SSM) established by the European Union in November 2014 under the ECB. The MFSA participates in the SSM Supervisory Board decision-making. The Supervisory Board plans and carries out the SSM's supervisory tasks and proposes draft decisions for adoption by the ECB's Governing Council. Officials from the MFSA regularly attend meetings of various working groups within the SSM.

The MFSA also forms part of the European System of Financial Supervisors (ESFS) and participates in meetings of the Boards of Supervisors of the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), the European Insurance and Occupational Pensions Authority (EIOPA) and the General Board of the European Systemic Risk Board (ESRB). It also attends committee and various technical level meetings of these European supervisory bodies.

SUPERVISORY ACTION

The Authority had more than 185 employees directly engaged in the licensing, regulation and supervision of licensed entities during 2016. Supervision is carried out through both off-site and on-site compliance activities.

Off-site supervision

The off-site supervisory process includes the review and approval of ongoing developments in the business of licensed entities, such as the review and approval of changes in qualifying shareholding, directors and senior management, and changes in statutory instruments; transfers of portfolios in the case of non-life business; mergers, and reductions and increases in the capital of licensed entities. Off-site compliance staff also monitor adherence to prudential requirements through the review of periodical returns and statutory reports, audited financial statements and other documentation. The implementation of certain regulations and technical standards may also involve off-site staff in the analysis of specific components in the operations of licence holders so that appropriate supervision is assured.

Detailed off-site analysis was carried out on the Internal Capital Adequacy Process (ICAAP) reports of credit institutions and the Risk Management Internal Capital Adequacy Assessment Process (RMICAAP) reports submitted by investment service licence holders. The MFSA continued to review the Forward Looking Assessment of Own Risks (FLAOR) reports submitted by insurance and reinsurance undertakings. Further Solvency II measures involved the analysis of data submitted in the Quantitative Reporting Templates and Regular Supervisory Reports covering Information on System of Governance and Information on Valuation for Solvency Purposes submitted by undertakings falling within the reporting threshold.

On-site supervision

The Authority's on-site supervision programme aims to determine the level of compliance with statutory obligations, rules and regulations, including conduct of business and internal governance, and to detect weaknesses or shortcomings in the supervised entities under review. On-site visits further ensure that corrective measures identified during previous inspections or through off-site analysis are followed up and implemented by the relevant entities. The supervised entities to be visited are selected through an assessment involving the compliance function's performance, the size and nature of the risk posed by the licence holder and any complaints filed against the licence holder. The risk monitoring system plays an important part in this assessment.

On-site supervision enables the Authority to delve deeper into the operations of the licence holders and facilitates the understanding of market and industry practices. This aspect of supervision takes the form of broad-based or focused visits as required. The type of visit depends on whether the objective is to scrutinise a particular area of compliance or to carry out a more general assessment of the state of compliance within the industry. This is ultimately determined by the nature of the risk posed by the relevant licence holder/s and the theme or themes being investigated.

Planned on-site visits form part of a wider integrated programme of compliance reviews carried out by the on-site teams that includes other forms of exchanges with licence holders, and could also involve a series of supplementary on-site or off-site meetings. The Authority conducted 237 compliance reviews during 2016. The annual compliance programme may also include thematic reviews carried out on a set or sub-set of licence holders in order to identify possible non-compliant institutions. The process of thematic reviews usually starts with a desk based review and other off-site work and is followed up with meetings, on-site visits and written correspondence with the identified potentially non-compliant institutions.

The duration of a compliance review varies depending on the nature of the exercise and the type of licence holder but can take anything from a few days to several weeks to complete.

Table 9 provides a breakdown of compliance reviews carried out during 2016.

Table 9: Compliance Reviews

Type of Institution	*Number of Licence Holders*	*Number of Reviews in 2016*
Credit & Financial Institutions	69	36
Insurance and Pensions	133	27
Investment Services	451	112
Authorised Trustees	157	38
Registered Company Services Providers	140	24

Source MFSA:
Note: On its own, an on-site visit can take anything between 36 man/hours and 150 man/hours.

Supervision of Insurance Business

Solvency II became effective on 1 January 2016. During the year under review the Insurance and Pensions Supervision Unit (IPSU) started receiving the solo and group quarterly quantitative reporting templates from insurance and reinsurance undertakings and the Own Risk and Solvency Assessment prepared by the undertakings.

A number of on-site visits in relation to insurance undertakings focused on adherence by the undertakings of obligations arising from the Pillar II - Solvency II requirements. The assessment of the level of preparation, including systems and processes, related to the implementation of Solvency II measures introduced by the respective licence holders, also spilled over to 2016.

Quantitative reporting and review

Besides the quantitative reporting templates from insurance and reinsurance undertakings, the MFSA also receives national specific templates and management accounts of the insurance undertakings. These templates and management accounts are being used by the MFSA to carry out its review of the financial obligations to which undertakings are subject.

Qualitative reporting and review

During 2016 all insurance and reinsurance undertakings submitted their first Own Risk and Solvency Assessment to the Authority. These assessments were reviewed by IPSU and feedback provided in writing by the Authority. Meetings were also organised by the Authority with individual undertakings and insurance managers. In general the Authority noticed a sharp improvement over the Forward Looking Assessment of Own Risks submitted by undertakings in the previous year as part of the preparatory measures for Solvency II, however there is still need for improvement.

Own funds approvals

During the year under review, the Authority received two applications for the approval for use of ancillary own funds by insurance undertakings. The Authority approved one of these applications. The other application was still outstanding as at the end of the year.

Seven applications were submitted to the MFSA for approval of the assessment and classification of own-fund items, which are not covered by the lists laid down in Articles 69, 72, 74, 76 and 78 of the Delegated Regulation (EU) 2015/35. All these applications were approved by the Authority.

Approvals of Internal model applications (full and partial)

During the year under review, the MFSA approved a partial internal model to allow a solo undertaking to calculate the Solvency Capital Requirement under Solvency II in terms of paragraphs 5.5.54 to 5.5.61 of Chapter 5 of the Insurance Rules issued under the Insurance Business Act (Cap. 403 of the laws of Malta). This approval became effective on 20 July 2016.

Insurance Groups

All insurance and reinsurance groups subject to group supervision are, in terms of the Solvency II Directive, required to have a group supervisor appointed from among the supervisory authorities involved. At the end of 2016, the MFSA was a member of the college of supervisors of four international insurance groups; and became group supervisor of one international insurance group.

Audit Committees

Article 39 of Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC, ("the Statutory Audit Directive"), requires authorised insurance and reinsurance undertakings, considered to be "public-interest entities" in terms of the said Directive, to establish an Audit Committee. The said Article was transposed in Annex II of Chapter 6 on System of Governance, in Part B of the Insurance Rules. As a consequence of this new obligation the Unit engaged with insurance and reinsurance undertakings to determine how the undertakings proposed to satisfy this new requirement.

Seventeen undertakings have established an Audit Committee in compliance with paragraph 1.1 of Annex II to Chapter 6 of Insurance Rules whilst 23 insurance undertakings have confirmed that the Board of Directors will be performing the functions assigned to the audit committee under the Rule. 17 insurance undertakings which are subsidiary undertakings of parent undertakings, confirmed that such parent undertaking complies at group level with the requirements set out in Article 39 of the Statutory Audit Directive and Articles 11(1), 11(2) and 16(5) of the Statutory Audit Regulation.

EIOPA Stress test 2016

During 2016, the European Insurance and Occupational Pensions Authority (EIOPA) conducted an EU-wide stress test for the European Insurance Sector in conjunction with the national competent authorities responsible for insurance supervision in Member States. The 2016 Stress Test Exercise assessed the resilience of the insurance industry to two prominent prevalent risks. Two scenarios were tested in this exercise, a low-for-long yield scenario which focused on a prolonged low interest rate environment; and a 'double-hit' scenario combining a low interest rate curve and a market stress. The double-hit scenario was set-up by EIOPA in cooperation with the ESRB. The main objectives of the exercise were to explore the overall resilience of the insurance sector to severe market developments and to identify major vulnerabilities. This exercise was also conducted with the aim to reveal areas that required further supervisory focus and to examine potential systemic risks in situations of stress.

A total of 236 solo undertakings from 30 countries participated in this exercise. Undertakings selected for participation underwrite long-term business involving investment guarantees and are thus vulnerable to a scenario with an extended period of low interest rates. In terms of technical provisions, these undertakings report 75% of their total technical provisions to be life business excluding unit-linked. Less than 2% is non-life business. With regards to Malta, MSV Life plc and HSBC Life Assurance (Malta) Ltd participated in the EIOPA Stress Test. These undertakings constitute 93% of the total life technical provisions of direct life undertakings in Malta.

The EIOPA Stress Test was designed as a vulnerability analysis and therefore did not constitute a pass or fail exercise. However, from the results submitted by the Maltese participants, the undertakings concerned remain financially strong to withstand both low for long yields and also falls in asset values.

Supervision of Pensions

The Retirement Pensions (Transitional Provisions) Regulations, 2015 provided that any scheme or arrangement, retirement fund, or any person that had been registered in terms of the Special Funds (Regulation) Act (Cap 450), had until 31 December, 2015 to comply with the new Retirement Pensions Act (Cap 514) and the subsidiary legislation issued thereunder, including the Pension Rules. In this regard during the year under review the IPSU's supervisory off-site and on-site supervisory work carried out in the area of pensions focused on the adherence by retirement scheme administrators, retirement schemes and funds with the new Pension legislation. The MFSA conducted five on-site visits in the area of pensions during 2016 to determine adherence by pension licence holders with the new legislation.

In terms of the new Pension Rules, investment managers and back office administrators registered under the Retirement Pensions Act (Cap 514) are required to report their financial position to the Authority on a regular basis similar to what is required from retirement scheme administrators. Furthermore, according to the said Rules, retirement schemes are now also being required to submit a half-yearly report to the Authority. Therefore part of the off-site work carried out by the IPSU involved the review of these financial reports.

Supervision of Investment Services

During the year, the Securities and Markets Supervision Unit (SMSU) monitored the adherence by investment services licence holders with the regulatory framework through the review of regulatory documentation and the conduct of on-site inspections. A number of compliance reviews were carried out at the offices of entities licensed in terms of the Investment Services Act (Cap 370). These included visits to investment firms, fund managers, collective investment schemes, central securities depositaries, custodians, financial and non-financial counterparties and regulated markets including the MSE.

Investment Firms

The compliance reviews of investment firms were focused on governance, compliance and risk management processes and included a review of clients' monies and clients' assets reconciliation process.

Throughout these visits a number of shortcomings were identified. In certain cases, internal reporting lines were not clearly defined and were not formalised in the procedures manual. Additionally, terms of reference relating to the organisational structure of internal committees were not always drawn up or signed by the relevant parties.

MFSA officials also reviewed the firms' risk management function. The Authority found cases where the risk management procedures appraised were of a general nature and did not address the firm's actual and specific circumstances. It was also noted that not all firms had a remuneration policy in place as required by the rules and that Compliance Officers were not always involved in material business decisions.

A review of client monies and client asset accounts was undertaken in a number of cases. MFSA officials identified cases where (i) reconciliations were not being conducted in a timely manner; and/or (ii) there was no evidence of the dual control principle being properly observed for such reviews. It was emphasised that the four eyes principle should be properly applied when carrying out a reconciliation exercise and that this test should be included in the compliance monitoring programme.

Best Execution visits

SMSU also carried out thematic reviews on a number of licensed investment services firms to assess their implemented Best Execution (BE)[14] policies and procedures. The thematic reviews consisted of a desk based review of the BE policies and procedures and also an on-site visit in order to (i) examine the policy in practice; (ii) review a sample of trades recently executed and (iii) determine the extent to which the BE Policy and arrangements enable the licence holder to obtain the best possible results for its clients.

Following the thematic reviews, the Authority noted that, with regards to the content of the BE Policy, investment firms do not monitor the effectiveness of the policy and procedures in place. In most cases, no evidence was provided that investment firms review the current BE arrangements through the assessment of transactions on a regular basis. In most cases, the policy was generic in nature, quoting the requirements of MIFID regulation with limited specific details about the investment firm's strategy and key steps required for best execution. The Authority also noted that not all the BE policies reviewed included details of the choice of execution venues which are used by the investment firm.

While there are no restrictions for the Company to deal with one entity for execution purposes, the investment firm must be able to show that this arrangement satisfies the 'overarching' best execution requirement. During the on-site visits, investment firms making use of one execution venue were not in a position to prove to MFSA officials the effectiveness of this arrangement. The Authority also noted that, in certain cases, firms could not provide any evidence of checks being undertaken of the client's signature. In reviewing a sample of clients' files, MFSA officials also noted that the original or scanned copy of the clients' order form was not always on file, which is a requirement as evidence of clients' authorisation.

During the respective on-site visits, it was also noted that a formal Compliance Monitoring Programme and detailed documentation of compliance checks carried out are not always kept by the Compliance Officer.

Following the visits various communications were issued to respective licence holders setting out the findings and advising them to take corrective action.

Collective Investment Schemes and Fund Managers

The compliance reviews carried out during the year focused on two distinct areas: the compliance of investment restrictions monitoring; and the compliance with the remuneration provisions in terms of the AIFM Directive.

The MFSA conducted thematic visits at a number of fund managers with a view to assess the extent of compliance of the investment restrictions applied by the fund managers with respect to the various collective investment schemes managed. The thematic review consisted of an assessment of the investment restrictions process embedded within the investment management function. The scope of this exercise was restricted to the fund manager's fund business. A number of shortcomings were identified during these visits. While asset eligibility checks are carried out as an integral part of pre-trade investment restrictions monitoring, the Authority is of the view that a standard asset eligibility template should be prepared for each sub-fund reflecting its investment requirements.

14 MiFID's best execution regime is set out as follows in the Directives: Article 21 of Level 1 and Articles 44 and 46 of Level 2 set out the requirements for investment firms that provide the service of executing orders on behalf of clients for MiFID financial instruments and, indirectly via Article 45(7), for investment firms that provide the service of portfolio management, when executing decisions to deal on behalf of client portfolios.

This template would ensure that appropriate asset eligibility testing is carried out whenever a new asset or position is taken on. The MFSA officials noted that post-trade investment restrictions checks do not include all the relevant UCITS obligations and the offering documentation of the schemes and sub-funds, with such inadequacy being more pronounced in the case of qualitative investment restrictions. Borrowing restrictions, particularly in the case of UCITS schemes, need to be adequately monitored in order to ensure that the borrowing is within the established limits and for temporary purposes only.

Another deficiency identified by the Authority related to the mismatching of the frequency of the post-trade investment restriction compliance test with the dealing cycle of the particular sub-fund. During the compliance reviews, MFSA officials remarked that end user computing could be improved by ensuring that adequate safeguards are implemented so that the electronic file used for carrying out the test is protected. The Authority, encourages, where possible, the minimisation of manual inputting and the adoption of automated investment restrictions checking processes with adequate audit trails.

During 2016, the Authority conducted a thematic review on compliance of the remuneration provisions in terms of the AIFM Directive by self-managed collective investment schemes and fund managers regulated under this Directive. The compliance reviews were designed to verify the extent to which the selected licence holders are in adherence with the remuneration requirements in practice. MFSA officials assessed various documents including the remuneration policy and board minutes where remuneration related matters and decisions are discussed. Furthermore, checks also covered the relevant monitoring arrangements that AIFMs have in place with regards to their delegates. MFSA officials conducted non-exhaustive checks of remuneration policy documents of AIFMs and a number of AIFMs were required to ensure better disclosure in their Remuneration Policy documents.

European Market Infrastructure Regulation (EMIR)

A number of shortcomings were identified during compliance visits carried out in relation to the implementation of the European Market Infrastructure Regulation (EMIR). The Authority found that certain entities did not have the necessary procedures to report derivative transactions to Trade Repositories in place. Other entities were found not to have in place the necessary risk mitigation techniques, to enable the company to manage possible risks relating to over-the-counter (OTC) derivative transactions. There was an instance where an entity which had been delegated the reporting function on behalf of its counterparts, was not reporting all contracts due to a shortfall in its internal controls and checks. Subsequent to the compliance visit, this shortcoming was rectified and the entity has submitted the backlog in reports and has introduced new controls and measures to prevent the recurrence of such deficiency.

Moreover, the Authority identified a number of errors in the reports which were being submitted to Trade Repositories. The Authority has been in contact with the entities having incomplete or incorrect data in order to improve as much as possible the data quality being submitted.

The outcome of these compliance reviews was followed up with the respective licence holders who were required to take the relevant corrective action. The general findings from these reviews also led the Authority to issue advisory circulars to draw the attention of the industry to the relevant regulatory obligations.

Supervision of Credit and Financial Institutions

The remits of the Banking Supervision Unit (BSU) were re-defined as a result of the implementation of the SSM in November 2014. The BSU is composed of three sections dealing with: Joint Supervisory Team (JST) work flows pertaining to the three Significant Institutions (SIs) and general On-Site responsibilities; Less Significant Institutions (LSIs) Supervision and Supervisory Reporting, and Non-SSM Work and Policy issues. As a result of the increased workload mostly emanating from SSM related work, but also as a result of the increase in licensed financial institutions, the BSU continued to recruit new staff in order to strengthen its human resources complement.

Supervision of Significant Institutions (SIs)

The day-to-day supervision of SIs continues to be conducted by JSTs. The JSTs comprise staff from both the ECB and the National Competent Authorities (NCAs) of the countries in which the credit institutions of a given banking group are established. A JST is established for each significant institution.

The three locally licensed SIs are Bank of Valletta plc, HSBC Bank Malta plc and the MeDirect Group (of which Mediterranean Bank plc forms part). The latter replaced Deutsche Bank Malta Ltd as the third largest bank in Malta following the gradual divestment and the subsequent voluntary surrender of licence by this bank in mid-2016.

During the year the JSTs carried out on-going supervision work at the three SIs, with monthly meetings being held in relation to each bank. Other than bilateral discussions between the MFSA and the ECB members of the JSTs, such meetings also involved senior management members of the respective banks, where matters of mutual interest or concern were on the agenda. Meetings were mostly held in Malta, but some meetings were also held in Frankfurt.

The main work conducted by the JST of Bank of Valletta plc comprised the ICAAP review, the analysis of the bank's short to medium term capital plan and review of the bank's allocation of risk weights to its asset portfolio. The HSBC Bank Malta plc JST carried out a focussed assessment of the bank's concentration risk as well as an analysis leading to the Supervisory Review and Evaluation Process (SREP) assessment. With regards to MeDirect Group, given that 2016 was the first year where the bank was under direct ECB supervision, the JST mainly focussed on getting to know the bank and its subsidiaries, its senior management and its operations, concentrating primarily on Senior Syndicated Corporate Loans. Furthermore, as a result of the Comprehensive Assessment (CA) undertaken during 2015, the JST made sure that remedial actions emanating from this exercise were thoroughly implemented by the group.

During the year, in line with the supervisory examination programme agreed with the ECB, the BSU's on-site section initiated two on-site inspections at HSBC Bank Malta plc which were not yet concluded by the end of 2016. The first of these two missions covered the bank's Execution Risk, while the other related to Business Model and Profitability. A mission which was undertaken at Bank of Valletta plc, and concluded during the year under review, was led by the ECB and included a member of the BSU on-site team and members of the Conduct Supervision Unit and was aimed at reviewing the bank's trust business.

Supervision of Less Significant Institutions (LSIs)

LSIs are directly supervised by the Authority, with additional reporting obligations to DG Micro-Prudential Supervision III (DG MS III) of the ECB under the SSM.

During 2016, the MFSA conducted various on-site visits to LSIs including a focused assessment on non-performing loans at one of the high priority LSIs, which had been initiated in 2015 and which was finalised in 2016. MFSA Inspectors also carried out a focussed assessment on large exposures at another LSI and a follow-up exercise at the same institution. A thematic review on internal governance was also initiated and four LSIs were covered during 2016. The Authority also carried out a follow-up review on internal governance at another high priority LSI with a view to assess the corrective measures taken by the bank as a result of the original on-site inspection undertaken during the previous year.

The MFSA continues to regularly report to the SSM on its risk analysis of LSIs. It also notifies any regulatory concerns it may have through the ex-ante notifications process. Members of the BSU regularly attend various working groups, networks and similar fora, amongst which are the SSM Secretariat, the Risk Analysis Network, the Centralised On-site Group, the Senior Management Network, Methodology and Standards as well as IMAS.

Supervision of Financial Institutions

The ongoing supervisory oversight of Financial Institutions continued to be conducted through the analysis of the relative reporting submissions received on a quarterly basis. Nevertheless, given the increase in the number of licensed institutions in this area, BSU management was involved in numerous meetings, both with officials from newly licensed institutions as well as with long-established entities in order to discuss various issues, mostly related to governance and internal controls.

Quality Assurance within Banking Supervision

The supervision of both SIs and LSIs requires overall mechanisms to ensure that the SSM approach to supervision remains consistent and of the highest quality across all supervised entities.

The MFSA has continued to take steps towards setting up a Quality Assurance function to provide assurance of the quality of prudential supervision and to contribute to the excellence and homogeneity of the Authority's banking supervisory activities. The Quality Assurance Function provides quality assurance on the functioning of the authority's direct supervisory activities as defined in the SSM Methodology as well as assist the ECB to carry out its reviews in terms of SSM Methodology. With regard to the Quality Assurance reviews, the function's main responsibilities are to evaluate (i) supervisory deliverables, (ii) the processes, procedures, methodologies, standards and organisational structures, and (iii) tools and systems, taking into account the principle of materiality and the risk-based approach of the Authority.

Supervision of Trustees and other Fiduciaries

During 2016, the compliance reviews conducted by the Conduct Supervision Unit (CSU), of persons authorised in terms of the Trusts and Trustees Act (Cap 331) were mainly broad in scope. However a number of the authorised persons referred to above were subject to an on-site compliance visit focused on Corporate Governance as a result of the findings of the Thematic Review conducted in 2015, which revealed a number of deficiencies in this area.

This Thematic Review Questionnaire had been sent to 60 authorised persons in 2015, and therefore during 2016 the team continued to liaise with a number of authorised persons following the responses received to the said questionnaire.

Following the amendments introduced to the Trusts and Trustees Act in 2014, which required a minimum of €15,000 to be held and maintained by authorised trustees, and the two year transitionary period which expired on 25 April 2016, an exercise was carried out in 2016 whereby the team reviewed the share capital of all authorised trustees and fiduciaries to determine whether the share capital is in line with these amendments. A number of letters were sent to authorised trustees and fiduciaries whose share capital was not in line with these requirements. As a result of these amendments the team reviewed a number of Memorandum and Articles of Association which were updated due to the increase in share capital.

The team was involved in preparatory work in relation to three authorised trustees in breach of the requirements of the Trusts and Trustees Act (Cap 331), namely the letters referred to above, the consideration of representations and submissions made by authorised persons in this regard, the drawing up of internal memos and where necessary, an assessment of the regulatory action to be taken. This regulatory process was concluded early in 2017 whereby regulatory action was taken against the authorised persons which remained in default of the above-mentioned requirements.

Towards the end of 2016, MFSA carried out an exercise to enhance the risk based approach in relation to the supervision of authorised trustees and other fiduciaries authorised in terms of the Trusts and Trustees Act (Cap 331). In order to enhance the quality of data available, a data collection exercise was undertaken, aimed at collating up to date information within the trust and fiduciary services industry. This information enabled the Authority to enhance its supervisory approach both in relation to on-site and off-site supervision. In this regard a questionnaire was sent to all authorised trustees and fiduciaries.

Throughout 2016 the team responsible for supervision of trustees was also involved in various internal discussions in relation to the implementation of the Fourth Anti-Money Laundering Directive, particularly the aspects relating to the creation of a Trust Beneficial Owner Register.

Company Service Providers (CSP)

In 2016 the MFSA continued to conduct on-site compliance visits to persons registered in terms of the Company Service Providers Act. These on-site visits were carried out as part of the Conduct Supervisory Unit's (CSUs) supervisory role over CSPs, however, in view of the fact that CSPs only became subject to a regulatory regime in 2014, such on-site compliance visits were also geared towards educating registered persons to transition their operations from unregulated to regulated activities.

As part of off-site supervision of CSPs, the team also carried out desk top reviews of 37 financial statements, 35 management letters and 58 certificates of compliance with respect to the registered persons in terms of the Company Service Providers Act.

Conduct of Business

Through the Financial Promotion and Risk Assessment Team within the (CSU) the MFSA monitors the promotional efforts of regulated entities and the disclosures being made to clients to ensure regulatory requirements are being complied with. Thus the CSU determines whether or not regulated persons are correctly establishing the identified target market for each of the products they manufacture and/or distribute.

The MFSA also evaluates whether or not the medium being used to advertise the product is suitable for the intended target market of a product. CSU is also responsible for identifying any potential risks which may be posed by certain activities of regulated persons and which would need to be addressed from a supervisory perspective. The findings (data or emerging trends) are fed to the supervisory teams on insurance and investment services for them to raise issues with the regulated persons by means of Focused Visits or other supervisory tools as may be deemed to be appropriate.

Monitoring of promotional efforts of Regulated Persons

During 2016, the Authority monitored promotional efforts by Regulated Persons including adverts on various media and also reviewed business pages on social media of investment services licence holders targeting retail clients and Insurance Undertakings and Insurance Intermediaries (excluding Tied Insurance Intermediaries). The MFSA was alerted to and/or came across adverts by regulated persons in various media, including newspapers, YouTube, television and radio, which required follow-up. The MFSA requested the immediate suspension of three of the adverts, by three different investment firms and two adverts issued on social media by an investment firm and an insurance undertaking respectively.

The main shortcomings observed included adverts by investment firms omitting the relevant risk warnings; and adverts encouraging users of investment services products to create an online account to carry out online forex trading activities. Further shortcomings by insurance undertakings included the lack of visibility of text relating to the licensing statement and risk warnings displayed in small print; and adverts encouraging users to consider purchasing an insurance policy with the possibility of winning a gift. The above mentioned shortcomings were drawn to the attention of the respective Regulated Persons for remedial action to be taken as required.

Thematic Review on Monetary Incentives and Remuneration between providers of asset management services and insurance undertakings

In June 2016 the MFSA launched, in cooperation with the European Insurance and Occupational Pensions Authority (EIOPA), a thematic review of market conduct addressed at insurance undertakings operating in the unit-linked life insurance market. The purpose of this review was to identify potential sources of consumer detriment stemming from business interlinkages between providers of asset management services and insurance undertakings and the extent to which the latter are affected by the existence of monetary incentives and remuneration received. The Thematic review focused on three key issues:

- Existence and characteristics of monetary incentives and remuneration;
- How insurance undertakings address conflicts of interest; and
- How insurance undertakings structure unit-linked life insurance products.

EIOPA is managing and coordinating the EU-wide exercise, which targets 60% of the unit-linked life insurance market in each participating country. Submissions form participating insurance undertakings were received by the MFSA in September 2016 and were provided to EIOPA in an anonymised format. The results of the thematic review will be published by EIOPA in early 2017.

Reporting by Investment Firms

During 2016, all investment firms were required to report to the MFSA data pertaining to complaints (on a quarterly basis) and data on retail investor trends (on a half-yearly basis). CSU collated the data submitted for onward transmission to ESMA. The data submitted was also analysed by MFSA to identify any potential risks which would need to be addressed from a supervisory perspective.

Until the end of 2016, the Common Reporting (COREP) returns, which are submitted at regular intervals by Category 2 and Category 3 investment firms, have focused primarily on prudential data. Following the recent establishment of the Conduct Supervisory Unit, it was decided that conduct-related data would also be collected from investment firms as applicable. In order to simplify the data collection aspect, it was decided that going forward, these additional information requirements would be integrated within the COREP return, under a section titled "Conduct". The referred additional information requirements focused on the following areas: financial innovation, passporting, retail investor trends, complex financial instruments and complaints-related data. Category 1 investment firms and credit institutions authorised to provide investment services were also requested to report the aforementioned data under separate cover.

ENFORCEMENT

The Enforcement Unit within the MFSA has an investigative and enforcement role. The Unit is responsible for reviewing the actions and conducting investigations of licence holders who have or are suspected of having committed compliance failures, misconduct or any other breach of the financial services legislation. The Enforcement Unit also investigates the actions of persons carrying out financial services activities without having the necessary licence or authorisation. The Unit investigates suspicious or dubious schemes and takes appropriate action in such cases.

With the introduction of the SSM, the Enforcement Unit now forms part of the SSM Enforcement and Sanctions Network of the ECB.

During 2016, the Enforcement Unit continued to review 14 cases carried forward from previous years and opened 33 new cases. Of the cases dealt with during 2016, 12 concerned licence holders while 35 concerned non-licence holders. The main issues investigated included cases of mis-selling; misappropriation to the detriment of investors; the provision of investment or payment services without authorisation; lending without authorisation; the provision of insurance intermediary services without authorisation; issues of fitness and properness especially in relation to directors of licence holders; and suspicious, dubious and/or fraudulent schemes.

The Enforcement Unit works closely with the supervisory units within the MFSA on a number of cases and during the year conducted joint investigations and participated in three compliance reviews with the SMSU.

Following investigations carried out in 2016, the MFSA issued twelve warnings to the public concerning unauthorised or doubtful financial services or suspected fraudulent schemes. These warnings were issued in order to alert and protect consumers of financial services. They are published on the MFSA website and distributed to the press and ESMA .

Administrative Measures and Penalties

A number of administrative measures, including penalties and directives, were imposed on licence holders during the year. These concerned various breaches of licence conditions as well as infringements under the Investment Services Act (Cap 370), the Malta Financial Services Authority Act (Cap 330), the Insurance Intermediaries Act (Cap 487) and the Insurance Business Act (Cap 403), the Banking Act (Cap 371) and the Trusts and Trustees Act (Cap 331).

On 8 January, 2016, the Authority suspended, on regulatory grounds, the collective investment scheme licence of RFID Invest II SICAV plc. The collective investments scheme was found to be in breach of the standard licence conditions including: failure to submit audited financial statements; failure to have a compliance officer and a money laundering reporting officer; and failure to have a third party manager until the scheme is converted to a self-managed scheme.

On 8 March, 2016, the Authority, took action to safeguard the interests of investors by appointing Mr Paul Mercieca to take charge of the assets of DBR Investments Limited, and to take control of the company's business.

On 8 March, 2016, the Authority cancelled the Category 2 Investment Services Licence of FX-CAM Consulting and Advertisement Limited, formerly Sensus Capital Markets Limited. The company was found to be in breach of a number of standard licence conditions including, rules in breach of the conflicts of interest requirements; breaches related to record keeping and retention of data, breaches of rules with respect to general organisational requirements; and rules in relation to the appointment of company officials. The company also did not appear to have acted in good faith and had on numerous occasions tried to conceal information and mislead the MFSA whilst undertaking activities that went beyond its licence.

On 29 March, 2016, the Authority applied a number of restrictions on FimBank plc through the imposition of limitations on the expansion and further investment in its network of subsidiary and associated entities. The MFSA applied these restrictions following an on-site inspection and accumulation of findings which showed that the bank had a number of shortcomings including governance arrangements, processes and mechanisms not considered to be comprehensive enough as well as the scale and complexity of the credit institution's activities.

On 13 April, 2016, the Authority imposed an administrative penalty of EUR50,000 on STM Malta Trust and Company Management Limited for breaching the Trusts and Trustees Act and the code of conduct for trustees.

On 13 April 2016, the MFSA imposed four administrative penalties amounting to EUR27,500 on STM Malta Trust and Company Management Limited. These penalties related to a number of breaches of the Special Funds (Regulation) Act as well as breaches of directives issued by the MFSA and breaches of licence conditions related to the STM Malta retirement plan.

On 27 April, 2016, the Authority appointed Pricewaterhousecoopers Malta (PwC) as a competent person to safeguard depositors of Nemea Bank plc and the bank/s other clients. This was as a result of a joint on-site inspection carried out by the MFSA and DGMSIII of the ECB, where a number of serious regulatory shortcomings were identified and a decision was taken to take regulatory action to safeguard the interests of depositors and other creditors of the Bank. PwC were appointed to take charge of the assets of the bank for the purpose of safeguarding the interests of depositors and its other clients; and to assume control of the bank's business and to carry on the business and such other functions as the MFSA may direct.

On 9 June, 2016, the MFSA postponed a review of the upgrade of the licence of Futura Investment Management to a full AIFM and issued two directives to Futura to (i) restrict the business of Futura to the existing levels with immediate effect and to refrain from increasing Futura's total assets under management or to accept any new mandates until the assets under management fell below the EUR100 million threshold; and (ii) since the total AUM of Futura exceeded the EUR100 million de minimis threshold, the Authority requested that the company refrained from marketing funds in general and from exercising passporting rights and /or private placement provisions within the EU as provided by the AIFMD.

On 9 June, 2016, following the postponement of the review of the licence upgrade of Futura Investment Management Limited to a full AIFM, the MFSA issued a separate directive to Bank of Valletta plc as Depositary of Futura Funds SICAV plc to upgrade the existing Custody Agreement with Futura and to make it fully AIFMD compliant, in particular, until the AUM figure of Futura fell below EUR100 million or as otherwise directed by the MFSA.

On 9 September, 2016, the MFSA issued a directive to lift the temporary suspension of redemptions and subscriptions of Falcon Funds SICAV plc.

On 22 September , the MFSA issued a directive to Falcon Funds SICAV plc to redeem the units of the sub-funds held by the Swedish Pension Agency according to an orderly redemption plan.

The Supervisory Council was assisted by the Legal Unit on various regulatory issues and investigations and in the drafting of documentation in connection with these matters. Details on the administrative penalties and other sanctions issued by the MFSA may be found on the Authority's website (http://www.mfsa.com.mt/pages/AdministrativeMeasuresPenalties.aspx). Details of all pending appeals before the Financial Services Tribunal at the end of the year are included in Appendix VII.

PREVENTION OF MONEY LAUNDERING

The Financial Intelligence Analysis Unit (FIAU), established under the Prevention of Money Laundering Act (Cap 373 of the Laws of Malta), is ultimately responsible for enforcing compliance with the Anti-Money Laundering and Combating Financing of Terrorism legislative provisions.

The Enforcement Unit within the MFSA is also responsible for the supervision of Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) compliance by financial services licence holders, including trustees and company service providers. AML/CFT supervision is carried out by the MFSA as supervisory authority on behalf of the Financial Intelligence Analysis Unit (FIAU).

The main purpose of AML/CFT supervision is to monitor the level of compliance by financial services licence holders with the applicable AML/CFT laws, regulations and the Implementing Procedures issued by the FIAU. AML/CFT supervision is carried out in close collaboration with the FIAU on the basis of a risk assessment conducted together with the FIAU. During 2016, the MFSA carried out 36 on-site AML/CFT supervisory visits to MFSA licence holders from different sectors. The Enforcement Unit continued to be a point of reference for AML/CFT matters within the MFSA. Advice and assistance was provided to MFSA staff on various AML/CFT matters. Two Notices containing AML/CFT related information and guidance were issued, published on the MFSA website and circulated to licence holders. The Enforcement Unit also houses the MFSA Money Laundering Reporting Officer.

During the year under review, the MFSA was notified with and processed a large number of court investigations, attachments and freezing orders and provided responses to the police, Attorney General's Office and Court Registrar.

The MFSA worked closely with the FIAU on a number of AML/CFT related matters, including the implementation of recommendations made by MONEYVAL and work related to the transposition of the 4th AML Directive of the European Union.

International Sanctions

During 2016, the MFSA continued to follow and keep up to date with international (financial) sanctions issued from time to time by the EU, the United Nations Security Council and through national legislation, and provided advice and assistance both to MFSA staff and licence holders on sanctions-related matters. The MFSA is represented on the Sanctions Monitoring Board established within the Ministry of Foreign Affairs and during the year worked closely with the Board on various sanctions-related matters. Sanctions are published on the MFSA website and can be accessed from: http://www.mfsa.com.mt/pages/viewcontent.aspx?id=446. The MFSA has also published a number of notices to financial services licence holders to inform them about sanctions in force and to remind them of their compliance obligations.

In line with the Member States' reporting obligations under EU legislation and other international commitments, the MFSA from time to time compiles information on the amounts of frozen funds held by local financial institutions and transmits the information to the Sanctions Monitoring Board.

Whistleblowing

In 2016, the MFSA did not receive any external or internal reports which qualify as whistleblowing reports in terms of the Protection of the Whistleblower Act.

Admissibility to Listing

Following the review of the applications for admissibility to listing by the Listing Committee, the Listing Authority approved the admissibility to listing on the MSE of ten corporate bond issues, one equity issue and four Malta Government Stock issues. The Listing Authority also approved the admittance to listing on the European Wholesale Securities Market (EWSM) of three asset-backed securities, two bond issues and one note issue.

Prevention of Financial Markets abuse

The MFSA is responsible for safeguarding the integrity and reputation of the financial markets and enforcing the Prevention of Financial Markets Abuse Act (PFMA) regime. The Authority monitors on and off-exchange trading in financial instruments admitted to the MSE for possible suspicious trading.

During 2016, the MFSA completed 37 preliminary reviews and ten full reviews. At the end of the year, the Authority had 11 pending PFMA preliminary reviews and four pending PFMA reviews. There were three appeals pending before the Financial Services Tribunal in relation to insider dealing cases as at the end of the year. The appeals were filed by individuals who were fined by the Authority in 2009 for trading in listed securities when in possession of unpublished price-sensitive information.

Central Bank–MFSA Domestic Standing Committee

The Domestic Standing Committee (DSC) is made up of senior representatives of the MFSA, the Central Bank of Malta (CBM) and the Ministry for Finance (MFIN). The main topics discussed during the year included the implementation of the Bank Recovery and Resolution Directive (BRRD) into Maltese law, and the changes that this will bring to the local recovery and resolution framework. Other topics of a crisis management nature were also discussed.

Given the new composition of the DSC with the establishment of the Resolution Authority in January of this year, the DSC also thought it appropriate to undertake a crisis simulation exercise with the scope of analysing how a crisis situation is managed in practice, in terms of discussions within and between authorities, the use and exchange of information, communication and decision-making. The participants were the authorities mentioned above who also enlisted the assistance of one of the big four accountancy firms to create and monitor the exercise. This exercise took place in September 2016 and the outcomes are being evaluated.

Crisis Management Task Force (CMTF)

The Crisis Management Task Force (CMTF) is made up of technical experts representing the MFSA, the CBM, the MFIN and the Attorney General's Office. The efforts of the CMTF members revolved around active engagement in the build-up and participation in the crisis simulation exercise. Together with the consultants, they were active in creating the necessary scenarios and support structures for the exercise to take place.

Furthermore, most members of the CMTF were engaged in the preparatory work of the Maltese Presidency of the Council of the EU during the first half of 2017 by actively engaging with representatives of the Permanent Representation on the expertise required to handle the issues emanating from the Risk Reduction Measures as proposed by the EU Commission in November of 2016.

FINANCIAL STABILITY AND MACRO-PRUDENTIAL SUPERVISION

Joint Financial Stability Board (JFSB)

The Joint Financial Stability Board (JFSB) was established in pursuance of Recommendation ESRB/2012/2 of the European Systemic Risk Board (ESRB) which required the setting up of a structure for cooperation among national authorities on matters impacting financial stability, including macro-prudential policy. The JFSB is chaired by the Deputy Governor of the CBM responsible for financial stability, and is composed of members from the CBM and the MFSA. The Governor of the CBM, the MFSA Chairman and the Minister of Finance also participate in the meetings of the JFSB.

The JFSB held a number of meetings during the year and discussed matters related to the formulation of macro-prudential policy and measures aimed at strengthening resilience in the various sectors making up the financial system. The operational aspects of implementing potential policy measures in relation to the reduction of non-performing loans (NPLs) was a recurrent feature on the JFSB agenda during the year.

The JFSB, following extensive discussions with both the MFSA and the CBM, determined the need for the banking sector in Malta to reduce its level of NPLs and has advocated a more direct approach to achieve this target. The JFSBs' views were motivated by a relatively higher NPL ratio for core domestic banks when compared to the European average, more so when taking into account that the latter is biased upwards by the stock of NPLs of distressed countries. This notwithstanding, the JFSB also took note of the particular traits of the banking industry in Malta, such as the size of the institutions, their structural characteristics and their operational constraints.

The JSFB also determined that an amended version of the MFSA's Banking Rule 09, issued under the Banking Act 1994 is the most appropriate instrument to achieve this objective.

On 30 September 2016, the MFSA published a consultation document related to proposed amendments to the MFSA Banking Rule 09 'Measures addressing Credit Risks arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions authorised under the Banking Act 1994'. Following the feedback received from the industry, the MFSA issued a revised BR/09 in December 2016. The revisions to the BR/09 are essentially anchored around a medium-to-long-term ceiling on the NPLs ratio of credit institutions. The NPL ceiling is proposed to be set at 6%. This ceiling was designed to strike a balance between particular traits of the banking industry in Malta, such as the size of the institutions, their structural characteristics, as well as their operational constraints and the ratios observed in other European countries (excluding the distressed economies). Credit institutions holding a higher ratio will be required to devise a concrete reduction plan to bring the levels of non-performing loans below this ceiling. Failure to adhere to this plan will require the institution to shore up its resiliency through the accumulation of an additional reserve.

ESRB Recommendations

The JFSB monitored the implementation of a number of ESRB Recommendations, including the follow-up to Recommendations ESRB/2011/1 on Lending in Foreign Currencies; ESRB/2011/2 on US dollar denominated funding of credit institutions; and ESRB/2011/3 on the macro-prudential mandate of national authorities as well as the implementation of Recommendation ESRB/2013/1 on intermediate objectives and instruments of macro-prudential policy and Recommendation ESRB/2013/2 on funding of credit institutions. Along with the CBM, the MFSA played an active role in implementing these Recommendations. These efforts resulted in Malta being recognised as fully compliant in all the Recommendations following individual assessments by the ESRB.

Financial Stability

During 2016, the Regulatory Development Unit (RDU) continued to focus its attention on the build-up of the MFSA's capacity to monitor financial stability developments and associated risks in the financial sector. The MFSA has continued working on a long-term early warning capability for systemic risks based on data collected in the course of the micro-prudential supervisory process. A risk assessment tool has been further developed during the year which is designed to underpin the surveillance function of the RDU. The first phase of the tool design focused on macro-economic data as well as Banking and Insurance indicators. During the year the assessment framework was also extended to risk indicators related to domestic funds and Maltese investment firms. Apart from strengthening the scope of risks indicators related to the non-bank sector, it also envisaged that subsequent iterations of the tool would expand its scope into shadow banking and interconnectedness within the financial system.

Apart from strengthening its quantitative risk analysis, the MFSA has also sought to enhance its qualitative systemic risk analysis, through dedicated internal structures designed to enhance coordination and information sharing amongst its supervisory units. In this respect, an internal risk assessment working group has been set up within the MFSA made up of members from each supervisory unit and chaired by the RDU. This working group is specifically tasked to identify current/potential systemic risks on individual or groups of domestically significant institutions within each sector of supervision (securities, insurance business, banking and conduct). The working group has developed an internal questionnaire which is filled in by each supervisory unit every quarter and aims at taking a holistic approach to risk assessment based on the views of the supervisory units. The information provided within the internal survey provides ongoing input to the macro-risk assessment process.

The Supervisory Council is also holding dedicated quarterly meetings on financial stability with the assistance of the working group.

Through the RDU, the MFSA was actively involved in various work streams triggered by the ESRB and the Financial Stability Committee ('FSC') and their technical substructures. Amongst other topics, both these entities focused on country specific risks to financial stability with a special emphasis on real-estate related risks. These work streams involved considerable data and research sharing amongst the CBM, the MFSA, the ESRB and the FSC including a dedicated mission visit by the ECB on this subject.

Recovery and Resolution Framework

Following the changes that were enacted to the MFSA Act in order to establish the Resolution Authority, the Resolution Committee (RC) and the Resolution Unit (RU) in July 2015, and the publication of the Recovery and Resolution Regulations (RRR) in September 2015, the Resolution Authority and its substructures were formally established in January 2016.

During 2016, the RU engaged directly with the Single Resolution Board (SRB) in order to draft the resolution plans of the systemic institutions. This entailed an extensive information collection exercise as well as on-site visits to the institutions concerned. Such visits were useful as they allowed the authorities to better understand the institutions and draw up the report in an informed manner.

Furthermore, the RU was involved in a data collection exercise from all the banks operating in Malta to calculate the contribution to the Single Resolution Fund. This entailed close collaboration with both the SRB and the banks themselves. The exercise was successfully undertaken, as the necessary amounts were collected from the institutions and sent to the SRB within the stipulated timeframes it had set.

As the RU needed to have the necessary resources to meet such demands it embarked on a gradual growth strategy, expanding the staff complement from two to six with further growth envisaged for 2017.

In order to be able to undertake its role and responsibilities in terms of the RRR and the MFSA Act, the RC met seven times.

LEGISLATIVE & REGULATORY DEVELOPMENTS

OVERVIEW OF EU DEVELOPMENTS

The EU took further steps towards the completion of the Banking Union (BU) while work proceeded on the building of the Capital Markets Union (CMU).

The BU is central to strengthening resilience in the Economic and Monetary Union. Following the implementation of the SSM, the focus moved towards bringing the Single Resolution Mechanism (SRM) into operation thereby ensuring that a framework capable of resolving problem banks in an effective and timely manner is in place. Work also proceeded on the establishment of the European Deposit Insurance Scheme, which builds on the existing national deposit guarantee schemes to improve risk sharing within the banking sector, increase loss absorption capacity on the part of bank creditors and reduce vulnerability to major shocks.

By the end of 2016 the majority of EU Member States had transposed and implemented the relevant provisions of the Single Rulebook, the Deposit Guarantee Directive and the Bank Recovery and Resolution Directive. The focus now turns towards new institutional initiatives to reduce Europe's high stock of Non-Performing Loans (NPLs) impacting banks' lending capacity, reducing excessive investment in local sovereign bonds by financial institutions in certain Member States and working towards more supervisory convergence through the Single Rulebook. Work is also underway on a number of legislative proposals to implement policy measures addressing risks emerging from too-big-to-fail, interconnected and complexly-structured financial institutions, notably in the area of central clearing of derivatives, and capital and leverage ratio add-ons for globally systemic banks (TLAC).

Progress was registered on major pieces of legislation relating to the CMU. Changes aimed at boosting infrastructure investments by reducing the Solvency II calibration of capital charges for insurance sector exposures to infrastructure projects and European Long-Term Investment Funds (ELTIFs) entered into force on 2 April 2016.

Political agreement was reached on the compromise text of the Prospectus Regulation[15], clearing the way for the implementation of an entirely new EU growth prospectus, a higher threshold where local listing rules can apply in place of EU rules, a new registration document for frequent issuers and a greatly simplified process for secondary issuances. The new EU Prospectus Regulation will become effective 24 months after its publication in the Official Journal, which is expected to occur in early 2017. This would mean that the new EU Prospectus Regulation will become operative during the first half of 2019.

The Securitisation Regulation, laying down common rules on securitisation and creating a European Framework for simple, transparent and standardised securitisation, is another building block of the CMU. The Committee on Economic and Monetary Affairs (ECON) of the European Parliament adopted a compromise text on the Securitisation Regulation on 8 December 2016 (together with a related amendment to the EU Capital Requirements Regulation16). This text was subject to a formal reading in Parliament on 16 January 2017, after which the trilogue process will begin during Q1 2017. Barring any major divergences, the process is expected to lead to political agreement by mid-2017.

The European Commission proposed new rules for key players in the financial market to ensure that both central counterparties and national authorities in the EU were prepared to tackle crisis situations and protect critical functions

[15] Proposal for a Regulation of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading, published on 30 November 2015 - COM(2015) 583 final- 2015/0268 (COD)

[16] Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (the "CRR Amending Regulation").

in a crisis scenario. It set the stage for the next phase of implementation of the CMU by specifically targeting certain lingering national barriers to capital flows. The Commission also plans to follow up on policy work initiated in the area of business restructuring and insolvency, and loan origination funds.

During the year the MFSA was actively involved in the various discussions taking place within the relevant EU institutions. This included participation in the European Council Working Party meetings and submission of comments in preparation for the political and technical Trilogues. The MFSA will continue to monitor these developments closely to ensure that the local financial sector is well-prepared for the implementation of this legislative agenda.

Preparatory work related to a number of financial dossiers expected to be handled by Malta during its Presidency of the Council of the European Union in the first half of 2017 was ongoing throughout the year. The MFSA became increasingly involved in this work as these dossiers progressed through the different stages of the legislative process. Following a period of training undertaken by MFSA staff members during the first half of 2016, efforts in the run-up to 2017 were increasingly concentrated on the preparatory discussions and technical work involved on the relevant files.

EU Macro-Prudential framework

On 1 August, 2016 the European Commission issued a public consultation document in preparation for the review of the EU Macro-Prudential framework. The aim of the consultation was for the EU to gather feedback and evidence on the functioning of the different building blocks of the macro-prudential framework and to gather evidence and stakeholder feedback to analyse possible framework improvements. The current complex macro-prudential framework has evolved over recent years, and this rapid development has created a number of weaknesses in the framework. The framework is currently made up of five separate pieces of legislation namely:

- Two European Systemic Risk Board (ESRB) Regulations;
- The Capital Requirements Directive IV (CRD IV);
- The Capital Requirements Regulation (CRR) and; and
- The Single Supervisory Mechanism (SSM) Regulation.

The EU aims at addressing all the above five component parts in a comprehensive review to eliminate any possible inconsistencies and overlaps. The consultation ran from 1 August, 2016 until 26 October, 2016.

The MFSA issued information circulars on the EU Macro-Prudential policy review process on 8 August 2016.

Other Developments

EMIR

Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories ('EMIR') entered into force on 16 August 2012. EMIR sets out the criteria for determining whether or not different classes of OTC derivative contracts should be subject to a clearing obligation.

Act No. XIX of 2016 amended the Financial Markets Act (Cap345) to designate the MFSA as the competent authority in Malta for the purposes of implementing the relevant provisions of EMIR.

The implementation of this Regulation remains ongoing.

Under EMIR, the clearing obligation is established through Delegated Regulations based on Regulatory Technical Standards (RTSs) developed by ESMA. On the basis of the criteria defined in Article 5 of the Regulation, ESMA submitted three RTSs covering OTC interest rate derivatives and OTC credit derivatives to the European Commission. The Delegated

Regulations issued by the Commission[17] determine four categories of counterparties for the purposes of setting out the dates on which their respective clearing obligations take effect. Counterparties are categorised according to their level of legal and operational capacity and by their trading activity in relation to OTC derivatives. In order to ensure a timely and orderly application of the clearing obligation, staggered phase-in periods were applied to those different categories of counterparties.

On 13 July 2016 ESMA issued a Consultation Paper in which it proposed to amend the EMIR Delegated Regulations on the clearing obligation to prolong, by two years, the phase-in period for financial counterparties with a limited volume of derivatives activity, classified under Category 3 in the Delegated Regulations. The consultation closed on 5 September 2016.

Benchmarks Regulation

The Benchmarks Regulation entered into force in June. Benchmarks are vital for the functioning of the financial market. The Regulation improves the functioning and governance of benchmarks and ensures that they are not subject to manipulation to the detriment of markets and investors.

Payment Services Directive II

Directive (EU) 2015/2366 on payment services in the internal market ("PSD2") entered into force on 12 January 2016. PSD2 requires that all Member States implement these rules into national law by 13 January 2018. Article 98 of the PSD2 mandates the EBA to develop draft RTSs, in close cooperation with the ECB, on, inter alia, the requirements of strong customer authentication, and any exemptions thereto, as well as the requirements on common and secure communication.

On 12 August 2016, the EBA published a Consultation Paper on draft RTSs on strong customer authentication and common and secure communication under the PSD2, with the aim of ensuring appropriate levels of security, while at the same time maintaining fair competition between all payment service providers and allowing for the development of user-friendly, accessible and innovative means of payment.

The EBA plans to publish the final draft RTSs, as provided by the PSD2, within 12 months of entry into force of the PSD2. In accordance with Article 115 of the PSD2 the RTS will only be applicable 18 months after its adoption by the European Commission, which would suggest an application date of the RTS of October 2018 at the very earliest. Once applicable, the RTS will replace the current framework, established under EBA Guidelines, on the security of internet payments as implemented locally through Financial Institutions Rule FIR/04.

PRIIPs Regulation

On the 9 November 2016 the European Commission proposed an extension to the date of application of Regulation (EU) No. 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products [the "PRIIPS Regulation"] by one year, in the interest of ensuring a smooth implementation for European consumers and to ensure legal certainty for the sector. This postponement became necessary after the ECON Committee of the European Parliament rejected the Commission's Delegated Act on product intervention of 14 July 2016. On 1 December 2016, the European Parliament approved the postponement of application date to 1 January 2018. The Commission is working closely with the ESAs to resubmit the revised RTSs with the aim of addressing the concerns raised by the European Parliament.

The PRIIPs Regulation was published in the Official Journal of the European Union on 9 December 2014. It came into force on 29 December 2014 to be applicable in all the Member States of the European Union with effect from 31 December 2016.

[17] *Commission Delegated Regulation (EU) 2015/2205 of 6 August 2015 (OJ L 314, 1.12.2015, p. 13), Commission Delegated Regulation (EU) 2016/592 (OJ L 103, 19.4.2016, p. 5.) of 1 March 2016 and Commission Delegated Regulation (EU) 2016/1178 of 10 June 2016 (OJ L195, 20.7.2016, p. 3).*

EBA Guidelines

The EBA published its final Guidelines on stress tests for deposit guarantee schemes (DGSs). The Guidelines provide a systematic methodology for planning, running and reporting on stress tests conducted by DGSs to assess their resilience to various types of scenarios in times of banking stress. In line with the Deposit Guarantee Schemes Directive (DGSD), these Guidelines will promote the quality and the consistency of these stress tests. The resulting data will also facilitate future peer reviews by the EBA, contributing to a safe and sound EU framework for the benefit of depositors and financial stability. The Guidelines lay down basic methodological principles for all stress tests run by DGSs in the EU, including the various stages to be completed, the scenarios simulated and the areas and indicators to be measured. In addition, they establish a small core of harmonised priority tests to be run by DGSs and reported to the EBA with a view to running a comparable EU-wide peer review. The first stress test should take place by 3 July 2017.

Solvency II

On 1 April 2016, Commission Delegated Regulation (EU) 2016/467 of 30 September 2015 amending Commission Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings, was published in the Official Journal of the European Union.

The Delegated Regulation is directly applicable in Malta, together with other provisions transposed in Maltese legislation as reported later in this section.

Developments in Maltese legislation

The year under review was characterised by an intensive programme of legislative activity, including the implementation of EU legislation and updates to various regulatory frameworks in the Maltese financial services sector.

As outlined in Appendix IV, the Authority conducted 19 consultation exercises and issued eight feedback statements during the year. These related to aspects of both local regulation and transposition of EU regulation, and concerned developments in all areas of supervision.

In terms of the MFSA Act (Cap 330), one of the MFSA's functions is advising the Government generally on the formulation of policies and legislation in the field of financial services.

The Authority contributed towards two Acts of Parliament enacted during the year. These involved amendments to various pieces of legislation including the Financial Markets Act [Act XXXIII of 1990], the Investment Services Act [Act XIV of 1994] and the Prevention of Financial Markets Abuse Act [ACT IV of 2005]. The amendments were required in relation to the implementation of the UCITS V Directive, Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories ("EMIR"), Regulation (EU) No. 600/2014 on markets in financial instruments ("MiFIR") and the Market Abuse Directive[18]. A number of Legal Notices were also published in terms of various financial laws falling within the Authority's area of competence. A list of the relevant Acts of Parliament and subsidiary legislation published in 2016 is included in Appendix I to this Report.

The MFSA is also empowered to regulate, monitor and supervise financial services in Malta and to issue Rules to that effect. During 2016 the Authority issued a number of Rules during the year, among them a Banking Rule on Funding Plans for Credit Institutions authorised under the Banking Act; Insurance Rules on the Valuation of assets and liabilities, technical provisions, own funds, Solvency Capital Requirements, Minimum Capital Requirements, and various investment services rules. A full list of Rules that were published during the year is reported in Appendix II.
The above measures were further supplemented by a number of MFSA Circulars providing additional information on the application of legislation to relevant categories of licence holders. A full list of Circulars is featured in Appendix III of the Report.

Directive 2014/56/EU Statutory Audit Directive

Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, ("the Statutory Audit Directive"),

[18] Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse (market abuse directive).

was amended by Directive 2014/56/EU issued on 16 April 2014. The Statutory Audit Directive was further developed in the new Regulation (EU) No 537/2014 of the European Parliament and of the Council of the European Union of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, ("the Statutory Audit Regulation"). In terms of the Statutory Audit Directive, credit institutions, insurance undertakings, reinsurance undertakings and listed companies which are deemed to be public-interest entities are required to establish an Audit Committee. MFSA was responsible for the transposition of Article 39 of the said Directive relating to the composition and functions of the audit committee. The transposition deadline was 17 June 2016.

On 31 May 2016, the Authority issued a Consultation Document proposing to amend Chapter 6 of Part B of Insurance Rules on the System of Governance, to transpose the new Article 39 with respect to authorised insurance undertakings and authorised reinsurance undertakings considered to be "public-interest entities" in terms of the said Directive.

On 8 June 2016, the MFSA issued a similar consultation document on the implementation of Article 39 of Directive 2006/43/EC in relation to credit institutions through amendments to Banking Rule BR/12. This was followed on 28 June 2016 by the publication of another MFSA Consultation Document on proposed amendments to the Listing Rules. The relevant Feedback Statements were published on 18 July, 9 August and 11 August 2016 together with the respective amendments to the Rules.

Amendments to the Financial Markets Abuse Act

The Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) (MAR) as well as a new directive with respect to criminal sanctions, the Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse (market abuse directive) (CSMAD or MAD II) came into force on the 3 July, 2016. Act LIII of 2016 amending the Prevention of Financial Markets Abuse Act was published in the Government Gazette of Malta No. 19,960 on 2 December, 2016. It transposes the Market Abuse Directive II in its entirety and implements the Market Abuse Regulation.

The Reporting of Infringements Regulations [L.N.405 of 2016] were also published on 2 December 2016. The purpose of these Regulations is to implement Article 32(1) of the Market Abuse Regulation and the Commission Implementing Directive on the reporting to competent authorities of actual or potential infringements. On 20 October 2016 ESMA published Guidance notes on prevention of market abuse and a Questions & Answers (Q&A) document regarding the implementation of the Market Abuse Regulation.

Transposition of Payment Accounts Directive

On 15 March 2016, the Authority issued a consultation document on the implementation of the EU Payment Accounts Directive. Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features.

The Payment Accounts Directive ("PAD") sets out common regulatory standards that EU Member States are required to meet in order to:

- improve the transparency and comparability of fees related to payment accounts that are used for day-to-day payment transactions;
- facilitate switching of those accounts; and
- ensure access to bank account with basic features.

Stakeholders had until 29 April 2016 to provide the MFSA with feedback and comments on the manner the Authority intended to transpose the Directive. Feedback was received from the Malta Bankers' Association, the CBM, the FIAU (Malta), a number of banks, law firms, and the Human Rights and Integration Directorate within the Ministry of Social Dialogue, Consumer Affairs and Civil Liberties. So as to ensure that the consultation document reached a wider spectrum of stakeholders, other entities were approached by the MFSA. These included Identity Malta, the Office of the Refugee Commissioner, and the Immigration section within the Police Headquarters. As part of this Consultation, meetings were held with various entities, including the Agency for the Welfare of Asylum Seekers (AWAS), and the Forum for Integration Affairs which is made up of representatives of community leaders from various non-EU nationalities that live in Malta. The main discussions revolved around the fact that asylum seekers in Malta are encountering difficulties when attempting to open a bank account in Malta. Both AWAS and the representatives in the aforementioned Forum welcomed the provisions in the proposed draft regulations which give asylum seekers in Malta a right to open a payment account with basic features. The opening and maintenance of a basic account is subject to AML/CFT and other specific prudential provisions as allowed by the Directive.

The Directive was transposed in the Credit Institutions and Financial Institutions Act (Payment Accounts) Regulations, issued in virtue of enabling powers set out in the Banking Act and the Financial Institutions Act, which were published on 7 December 2016 as Legal Notice 411 of 2016.

New Banking Rules to transpose the Deposit Guarantee Schemes "Recast" Directive

Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (the "Recast Directive") was published in the Official Journal of the European Union on 12 June 2014 and came into force upon publication. The Directive aims at increasing the stability of the banking system while ensuring the protection of depositors.

The Directive was followed up with the publication of a new set of Depositor Compensation Scheme Regulations [LN 383 of 2015] which came into force on 4 December 2015, replacing the Depositor Compensation Scheme Regulations of 2003. On 16 September 2016, the MFSA issued a Consultation Document on three new Depositor Compensation Scheme Banking Rules: BR17, BR18 and BR19, for a two week consultation period. The relevant Banking Rules were published and came into force on 16 November 2016:

Banking Rule (BR/17) on "Management Expenses Contribution" determines the amount of Management Expenses Contribution due by each member in any financial year ("the Management Expenses Banking Rule"). This Rule establishes a method for calculating the amount of contributions to be collected by the Scheme to cover its administrative expenses. The Rule is only used if the Scheme does not have enough funds to meet its administrative costs.

Banking Rule (BR/18) on the "'Risk-Based Method' and the 'Compensation Contribution Method'" lays down a method for determining the degree of risk incurred by members and a method for determining the amount of Compensation Contribution due by each member in each financial year ("the Risked Based Method Banking Rule"). This Rule explains the method chosen and the various steps required in order to calculate the risk incurred by each member and hence the amount which should be paid in contributions.

Banking Rule (BR/19) on "Payment Commitments" specifies the details on the type of assets which may be accepted as collateral for Payment Commitments and on the modalities used to implement such Payment Commitment. It also provides that the valuation of assets for the Payment Commitment shall be the market value of such assets, determined in accordance with such discounting rules ("the Payment Commitment Banking Rule"). The Rule also establishes the type of eligible assets which are accepted for the payment commitment amount. The Rule gives instructions to members as to how they should pledge assets as payment commitment in case of securities (both local and foreign) as well as cash.

Banking Rule BR/18 is based on the EBA Guidelines on Methods for Calculating Contributions to deposit guarantee schemes, EBL/GL/2015/10 whilst Banking Rule BR/19 is based on EBA Guidelines on Payment Commitments under Directive 2014/49/EU on deposit guarantee schemes, EBA/GL/2015/09.

Revised Banking Rules on Funding Plans of Credit institutions

On 30 September 2016, the Authority issued a revised version of Banking Rule BR/16 on Funding Plans for Credit Institutions authorised under the Banking Act (hereinafter the "Rule"). The main changes effected enable the Authority to submit data on funding plans received from institutions in compliance with the EBA Guidelines on harmonised definitions and templates for funding plans of credit institutions, in accordance with the provisions set out in the Decision on reporting by competent authorities to the EBA (EBA/DC/2015/130) (hereinafter the "Decision"). The revised Banking Rule will also enable the MFSA to fulfil its reporting obligations under the Recommendation of the ESRB of 20 December 2012 on funding of credit institutions (ESRB/2012/2), in compliance with the EBA Guidelines on harmonised definitions and templates for funding plans of credit institutions.

The Rule is applicable to credit institutions which fulfil at least one of the following criteria:

a. the assets of such credit institution represent a minimum of 5% of the total banking assets in Malta;
b. the credit institution is one of the three largest institutions measured by total banking assets in Malta, including banking groups on the highest level of consolidation and subsidiaries of foreign banking groups;
c. the total asset value of the credit institution exceeds EUR 30 billion both for credit institutions that represent the highest consolidation level of any given banking group and for non-EEA banking group subsidiaries;
d. the ratio of the four-year average total assets of the credit institution over the four-year average GDP of Malta exceeds 20% both for credit institutions that represent the highest consolidation level of any given banking group and for non-EEA banking group subsidiaries.

In this regard, the Authority will be communicating directly with the credit institutions which will fall within the scope of this Rule. Credit institutions falling within the scope of the Rule will be required to submit their funding plans on an annual basis, or as may be otherwise determined by the Authority.

New Banking Rules to tackle NPLs

On 30 September 2016 the Authority issued a consultation document on proposed amendments to Banking Rule 9 on "Measures addressing Credit Risks arising from the assessment of the quality of Asset Portfolios of Credit Institutions."

The average NPL ratio for core banks in Malta stood at 8.86% (December 2015), significantly higher than the average ratio within the EU. Apart from the credit risks and potential higher cost of capital at micro level, high NPLs are also sources of macro and financial stability risks. Indeed on a systemic scale, high NPLs are known to hinder the efficient channelling of credit to the real economy as well as threatening future profitability at an industry level.

Following discussions between the CBM and the MFSA, the Joint CBM/MFSA Financial Stability Board ("JFSB") recommended a more direct approach to further bring down the level of NPLs in Maltese banks. The proposed BR09 amendments are very much in line with the ECB consultation on guidance to banks on NPLs. Credit institutions holding a higher ratio will be required to draw up a concrete reduction plan to bring the levels of non-performing loans below this ceiling. Failure to adhere to this plan will require the institution to shore up its resiliency through the accumulation of an additional capital reserve. The Consultation closed on Friday 21 October 2016.

Transposition of Mortgage Credit Directive

During the course of this year the MFSA continued to collaborate closely with the Malta Competition and Consumer Affairs Authority (MCCAA) to conclude the transposition of Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010 (the "Mortgage Credit Directive"). The main provisions of this Directive are concerned with setting the minimum regulatory requirements in order to protect consumers taking out credit agreements relating to residential property.

The Mortgage Credit Directive was transposed into Maltese Law by means of the Home Loan (Amendment) Regulations (renamed Credit Agreements for Consumers relating to Residential Immovable Property Regulations) [Legal Notice 259 of 2016] issued under the Consumer Affairs Act. The competent authorities for the purposes of these regulations are the MFSA and the Director General (Consumer Affairs).

Banking Recovery and Resolution Directive

Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishes a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council ['BRRD"]. The Directive came into force on 1 January 2015.

The BRRD was transposed into Maltese law through the Participation within the Single Resolution Fund and granting of financial support under the Single Resolution Mechanism Act, 2015 (Cap. 547) as well as other amending laws and regulations.

On 6 May 2016 two further regulations were published in furtherance of the transposition of this Directive: the Credit Institutions (Reorganisation and Winding Up) (Amendment) Regulations [LN 149 of 2016] and the Investment Firms (Reorganisation and Winding-up) (Amendment) Regulations [LN 150 of 2016]

As from the date of publication of these Regulations, where an investment firm or credit institution is either under resolution or where the conditions for resolution have been determined by the RC to be met, normal insolvency proceedings shall not be commenced except at the initiative of the RC, and a decision placing an investment firm into normal insolvency proceedings shall be taken only with the consent of the RC as provided for in Regulation 86 of the RRR made under the MFSA Act.

On 2 June 2016 ESMA published a Statement to clarify how credit institutions and investment firms should apply the relevant MiFID requirements governing the distribution to clients of financial instruments subject to the BRRD resolution regime, both on an advised and non-advised basis, as well as in the context of portfolio management.

Transposition of Solvency II[19]

New Insurance Business Rules transposing the Directive Solvency II came into force on 1January 2016.

On 12 April 2016, MFSA published a document, entitled "The Supervisory Objectives, Functions and Activities & The Supervisory Review Process", on the new "Insurance Supervision" webpage as required in terms of Article 31(2)(b) and (e) of the Solvency II Directive in relation to disclosure of information by competent authorities.

On 26 August 2016, with a view to ensuring a high quality of public disclosure of Solvency II information, the MFSA issued a consultation document relating to the external audit of certain templates of the Solvency and Financial Condition Report. This Consultation contained proposed amendments to Chapter 8 on "Financial Statements and Supervisory Reporting Requirements", in Part B of the Insurance Rules issued under the Insurance Business Act (Cap 403). The amendments require the external audit of specific templates of the Solvency and Financial Condition Report ("SFCR"), in particular templates on the Solvency II balance sheet, own funds, capital requirements and technical provisions.

The RSPV regulations 2016

The Reinsurance Special Purpose Vehicles Regulations (RSPV), 2016 were published on 19 April 2016, by Legal Notice 130 of 2016.

RSPV Regulations, 2016 were issued in terms of Article 64 of the Insurance Business Act (Cap 403). These regulations implement Chapter XV of Commission Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency

19 Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance

II); and Commission Implementing Regulation (EU) 2015/462 which lays down implementing technical standards with regard to the procedures for supervisory approval to establish special purpose vehicles, for the cooperation and exchange of information between supervisory authorities regarding special purpose vehicles as well as to set out formats and templates for information to be reported by special purpose vehicles in accordance with Directive 2009/138/EC.

In particular, the RSPV Regulations lay down conditions for authorisation of reinsurance special purpose vehicles as well as solvency requirements and reporting requirements within the framework of the aforementioned Commission Regulations. Furthermore these regulations clarify that in view of the fact that financial instruments issued by reinsurance special purpose vehicles are considered to be complex products, these types of instruments can only be sold to professional clients as defined in Annex II of Directive 2014/65/EU (the MiFID II Directive).

These Regulations replaced the Reinsurance Special Purpose Vehicles Regulations, issued in 2013.

Securitisation Cell Companies (Amendment) Regulations, 2016 [L.N. 347 of 2016] were also subsequently published on 28 October 2016. These Regulations amend the principal regulations in line with the RSPV Regulations, 2016 and with the Commission Delegated and Implementing Regulations which are directly applicable to Securitisation Cell Companies carrying on business as reinsurance special purpose vehicles.

Amendments to the Insurance Business Rules

On 14 January 2016, the Authority issued a feedback statement in response to two consultation documents issued on 30 October and 16 November 2015 relating to the Insurance Rules under the Insurance Business Act (Cap. 403).

Another consultation document was issued on 9 March 2016 relating to the content of the reports to be submitted to the MFSA by the approved actuary under article 23(1) of the Insurance Business Act (Cap 403) and Section 8.5 of Chapter 8 of the Insurance Rules, on Financial Statements and Supervisory Reporting Requirements.

On 1 April 2016, the MFSA issued for consultation amendments to Chapter 5 of Part B of the Insurance Rules on the "Valuation of assets and liabilities, technical provisions, own funds, Solvency Capital Requirement, Minimum Capital Requirement and investment rules". A considerable amount of feedback was received from the insurance market particularly on the introduction of prescriptive rules on inter-company loans made by insurance undertakings. In order to address the concerns raised the MFSA proposed amendments to the new Annex that had been issued for consultation.

On 9 September 2016 the MFSA issued a further document for final consultation on the proposed amendments to the new proposed Annex on intercompany loans, following feedback received on the first consultation exercise on this subject. A Feedback document was issued on 21 November 2016.

The amendments to Chapter 5 of Part B of the Insurance Rules came into effect on 1 January 2017.

Insurance Intermediation Rules

On 18th April 2016, the MFSA issued a Note for Information on the amendments to Insurance Intermediaries Rule 1 of 2007 – "Own Funds of Persons Enrolled in the Agents List, Managers List or Brokers List Carrying out Insurance Intermediaries Activities", which permit enrolled companies incorporating a guarantee or an irrevocable letter of credit with a bank as one of the components making up a company's own funds.

Insurance Circulars

During the period under review, the Authority issued various circulars and notes for information primarily related to Solvency II implementation. Some of these Circulars are briefly outlined in the following Table:

Date of Issue	Document issued
04 January 2016	Guidance Note on the Fitness and Properness Assessment of persons performing or overseeing Key Functions under the Solvency II Regime. The Note was circulated as a follow up to the MFSA Guidance Notes circulated in April 2010 and January 2012 on the System of Governance requirements under the Solvency II regime.
20 January 2016	Update on the Status of the EIOPA Tool for Undertakings (T4U) - in line with EIOPA's plan to make the T4U available through an open source model so that interested parties will be able to re-use and support the solutions developed by the T4U project.
22 January 2016	Circular on the requirement of a European insurance undertaking providing services in Malta to appoint a fiscal representative
05 February 2016	Status Update on Tool for Undertakings (T4U) that EIOPA had on the 2 February 2016 published a new beta release of the T4U supporting the 2.0.1 taxonomy to be used for the Full Solvency II reporting.
07 March 2016	Circular to communicate the qualitative reporting requirements concerning groups under Solvency II. The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company are required to prepare the Group Supervisory Own Risks and Solvency Assessment ("ORSA") Report, the Group Solvency and Financial Condition Report ("SFCR") and the Group Regular Supervisory Report ("RSR") on at least an annual basis.
01 April 2016	Circular issued as guidance to insurance and reinsurance undertakings (hereinafter referred to as "*undertakings*") in relation to the quantitative reporting requirements.
01 April 2016	Circular on Solvency II Minimum Capital Requirement Reporting-undertakings which have been exempted from solo quarterly reporting are requested to complete the templates set out as Annex I to this circular when reporting the Minimum Capital Requirements (MCR), within the time-frames relating to solo quarterly reporting and submit the templates in Excel format through the MFSA web portal ("LH Portal") using the TOR code MCRQ.
12 April 2016	Circular on the amendment of the Commission Delegated Regulation (EU) 2015/35 - On 1 April 2016, the Commission Delegated Regulation (EU) 2016/467 of 30 September 2015 amending Commission Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings, was published in the Official Journal of the European Union.

6 July 2016	Circular informing the industry that the LH Portal had been extended to receive submissions from Insurance Group entities, where the MFSA has been identified as the group supervisor in terms of Directive 2009/138/EC on the taking up and pursuit of the business of Insurance and Reinsurance ("Solvency II Directive").
14 October 2016	Circular informing all insurance and reinsurance undertakings that they are required to submit the reinsurance/retrocession ("reinsurance") data on the templates specified in terms of paragraph 8.6 of Chapter 8 of Insurance Rules issued under the Insurance Business Act (Cap. 403), based on the templates specified in the Annexes attached to the Commission Implementing Regulations issued under Articles 35(10) of the Solvency II Directive. As a result of these new requirements insurance undertakings are required to provide a breakdown of complaints by territory in addition to complaints by complaints cause and by type of insurance product.
20 October 2016	Circular issued informing that the MFSA had published a revised version (Version 02/2016) of the Quarterly National Specific Templates ("*QNSTs*").
3 November 2016	Circular issued - Solvency II Reporting and Public Disclosure - In terms of the Article 11 (m) of the Commission Implementing Regulation (EU) 2015/2450 undertakings are required to submit in template S.21.01.01 of Annex 1 – Loss Distribution Risk Profile, claims incurred split by claim size brackets within an accident or underwriting year for each line of business ("LoB").
14 November 2016	Circular issued to inform Insurance and Reinsurance Undertakings that they are required to start submitting XBRL files in respect of any Quantitative Reporting Templates (QRTs) with submission due on or after the 25 of February 2017.

Pensions

On 21 January 2016, the MFSA issued a Circular addressed to Retirement Scheme Administrators to provide clarification on the audit requirements and reporting thereon to the MFSA in view of the transition process for Retirement Scheme Administrators registered under the Special Funds (Regulation) Act (Cap. 450) to obtain a licence under the Retirement Pensions Act (Cap. 514), effective 1 January 2016.

On 26 October 2016, the Authority issued another Circular on Qualifying Recognised Overseas Pension Schemes (QROPS) to provide clarification on payment of retirement benefits to Members of retirement schemes licensed under the Retirement Pensions Act (Cap 514) and which schemes qualify as QROPS in terms of UK applicable legislation.

Trust and Trustees

In a Consultation Document issued on 30 December 2016, the Authority proposed Rules for Trustees and other Fiduciaries. The Authority was empowered to issue rules through amendments made to the Trusts and Trustees Act (Cap. 331) on 25th April 2014, brought into force by Act No. XI of 2014. The amendments included an amendment to Article 52 of the Trusts and Trustees Act, empowering the Authority to issue rules to regulate trustees which are subject to a registration procedure in terms of Article 43B. The consultation period will close on 15 February 2017.

The Trusts and Trustees Act (Protected Disability Trusts) Regulations, 2016 [LN 324 of 2016] were published on 7 October 2016. The Regulations were published following a consultation document issued on 12 December 2014 wherein the Authority put forward a proposal for the introduction of regulations specifically aimed at regulating trustees of trusts for persons with disability.

On 29 April 2016 a circular was issued on the coming into force of the Rules for Trustees of Family Trusts.

Implementation of Markets in Financial Instruments Directive II [MiFID II] & Markets in Financial Instruments Regulation [MIFIR]

Both MiFID II[20] and MiFIR[21] came into force on 12 June 2014. They provide the legal framework governing the requirements applicable to investment firms, regulated markets and data reporting services providers.

During the period under review, the Authority worked on the transposition of the provisions of MiFID II package, focusing on amendments required to local primary legislation including amendments to the Financial Markets Act (Cap 345) and the Investment Services Act (Cap 370). MiFIR will be directly applicable in Malta and in all EU Member States with effect from 3 January 2018.

On the 15 January 2016 the Authority, issued a circular on the changes being proposed to the Financial Markets Act (Cap 345) as a result of the transposition of MiFID II and the implementation of MiFIR. Act No. XIX of 2016 published on 22 April 2016 amended the Financial Markets Act to designate the MFSA as the competent authority in Malta for the purposes of implementing the relevant provisions of MiFID and MiFIR. A number of definitions were added to the Financial Markets Act (Cap 345) and the Investment Services Act (Cap 370).

On 3 May 2016 the Authority issued another Circular on changes proposed to the Investment Services Act (Cap 370) as a result of the transposition of MiFID II and the implementation of MiFIR. The Circular proposed that, in line with the Directive, the 'operation of an organised trading facility should be added as an investment service, and that a new instrument 'emission allowances consisting of any units recognised for compliance with the requirements of Directive' be added to the Second Schedule to the Investment Services Act (Cap370). Furthermore a new 3rd Schedule would be added to the Investment Services Act (Cap370) and amendments would also be made to the Investment Services Act (Exemption) Regulations[LN 329 of 2007]; the European Passport Rights for Investment Firms Regulations [LN 325 of 2007]; the European Passport Rights for Persons operating Multilateral Trading Facilities Regulations [LN 326 of 2007]; the Control of Assets Regulations [LN 240 of 1998], and the Investment Services Rules for Investment Services Providers. New regulations will be introduced on Algorithmic Trading, Multilateral Trading Facility (MTFs) and Organised Trading Facility (OTFs). New regulations will also be drawn up on Provision of Investment Services and Activities by Third Country Firms.

On 22 December 2016 the MFSA addressed a Circular to all market participants, including Market Operators, Trading Venues, Investment Firms, and other related entities subject to MiFID II and MiFIR with updates on the following ESMA publications: [i] Q&As on transparency, market structure, commodity derivatives, and data reporting; [ii] guidelines on transaction reporting, order record keeping and clock synchronisation; [iii] a discussion paper on the trading obligation for derivatives under MiFIR; and [iv] consultation papers on: (a) the draft guidelines on specific notions under MiFID II related to the management body of market operators and data reporting services providers; (b) the draft RTS on package orders for which there is a liquid market; (c) the draft RTS specifying the scope of the consolidated tape for non-equity financial returns; and (d) the guidelines on the calibration, publication and reporting of trading halts.

Completion of UCITS V transposition

Directive 2014/91/EU22 ['UCITS V'] amending Directive 2009/65/EC was published in the Official Journal of the European Union on 28 August 2014 and came into force on 17 September 2014.

[20] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU

[21] Regulation No. 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No. 648/2012

[22] Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities as regards depositary functions, remuneration and sanctions

On 17 December 2015, the European Commission adopted the first draft of the UCITS V Delegated Regulation. The Regulation sets out more detailed requirements on the UCITS V requirements affecting depositaries. The UCITS V Delegated Regulation came into force on 18 March 2016 and was published in the Official Journal 20 days later.

On 15 April 2016, the MFSA announced the publication of the following regulations published on 5 April 2016 in terms of the Investment Services Act (Cap 370):

a. Investment Services Act (Control of Assets) (Amendment) Regulations, 2016 [L.N. 113 of 2016];

b. Investment Services Act (Custodians of Collective Investment Schemes) Regulations, 2016 [L.N. 114 of 2006];

c. Investment Services Act (UCITS Administrative Penalties, Measures and Investigatory Powers) Regulations, 2016 [L.N. 115 of 2016] and

d. Investment Services Act (UCITS Management Company Passport) (Amendment), Regulations, 2016 [L.N. 116 of 2016].

Concurrently, the MFSA announced the publication of a revised version of the following Investment Services Rulebooks:

a. the Investment Services Rules for Investment Services Providers;

b. the Investment Services Rules for Professional Investor Funds;

c. the Investment Services Rules for Alternative Investment Funds; and

d. the Investment Services Rules for Retail Collective Investment Schemes.

Additionally Investment Services Act (Control of Assets) (Amendment No. 2) Regulations [LN 215 of 2016] and Investment Services Act (UCITS Administrative Penalties, Measures and Investigatory Powers) (Amendment) Regulations [LN 222 of 2016] were published on 10 June 2016.

The publication of these regulations completed the process of transposition of Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions ("UCITS V").

European Long Term Investment Funds Regulation [ELTIFs]

Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015 on European Long-Term Investment Funds [the "ELTIFs Regulation"] came into force on 8 June 2015. It became directly applicable in all Member States on 9 December 2015.

In Malta, the Investment Services Act (European Long-Term Investment Funds) Regulations were published on 4 March 2016 as LN 70 of 2016 in order to provide the Authority with the powers necessary for implementation of the Regulation, including the power to supervise compliance with the ELTIF Regulation on an ongoing basis and the power to issue any investment services rules as may be deemed fit.

Investor Compensation Scheme Directive 97/9/EC

On 4 November 2016 the MFSA launched a consultation on amendments to the Investor Compensation Scheme Regulations, S.L 370.09. One of the purposes of these amendments was to bring the Regulations more in line with Directive 97/9/EC of the European Parliament and of the Council of 3 March 1997 on investor-compensation schemes, [the Investor Compensation Scheme Directive ("ICD")]. It was proposed that appropriate amendments be made to ensure that all investment firms which fall within the scope of the ICD participate in the Investor Compensation Scheme ("the Scheme"). Such an amendment would require the participation by Category 1 licensed investment firms as well as the removal of the first proviso to Regulation 11, thereby mandating participation by Category 2 and Category 3 investment firms even where such firms provide services solely and exclusively to non-retail clients. By contrast participation by Category 4 investment firms was not recommended because such firms only offer trustee or custody services to Collective Investment Schemes, and such services fall outside the current ICD participation requirement.

The consultation document also proposed that the Investor Compensation Fund be built up over a period of 5 years. This was deemed necessary in order to smoothen the burden of such payments for the industry. The Consultation closed on 5 December 2016.

Notified AIFs and consolidation of the fund regime

On 11 February 2016, the Authority announced the launch of a new regulatory framework for AIFs marketed exclusively to Professional and Qualifying Investors.

The new notification framework would apply to AIFs that are not already in possession of a licence issued by the MFSA in terms of the Investment Services Act (Cap 370). The proposed notification regime would not apply to AIFs which are self-managed, loan funds and AIFs that invest in non-financial assets.

AIFs which fall within the scope of the notification process must be managed by a full-scope AIFM. By making a notification in respect of an AIF, the AIFM undertakes responsibility for that AIF and for the fulfilment of its obligations. The notification pack must be submitted to the MFSA within 30 calendar days from the date of resolution of the governing body of the AIF approving the Prospectus and prior to the effective date of the Prospectus. The MFSA will process the notification pack within a period of 10 business days and subject to receipt of all the required documentation, will proceed to include the AIF in the List of Notified AIFs. Moreover, specimens of all documents required for submission to the MFSA were made available by the Rules, thus further simplifying the procedure for the establishment of these types of funds. The Notified AIF regime was launched during an information session on 1 April 2016 and relevant legislation was put in place by the end of June 2016. On 21 July 2016, the MFSA included the first Notified AIF in the List of Notified AIFs.

The relevant Regulations were published on 10 June 2016 and included The Investment Services Act (Marketing of Alternative Investment Funds) (Amendment) Regulations [LN 218 of 2016]; the Investment Services Act (List of Notified AIFs) Regulations [LN 219 of 2016] and Investment Services Act (Exemption) (Amendment) Regulations [LN 216 of 2016].

During the information session held on the 1 April 2016, the MFSA also set out various proposals aimed at consolidating and simplifying Malta's current fund regimes. These proposals are aimed at improving and simplifying the Maltese funds framework, thereby enhancing the efficiency of the authorisation process. The proposed review would be implemented over three phases:

- Phase 1 – Consolidation of the current fund regimes;
- Phase 2 – Review of the authorisation processes; and
- Phase 3 – Revamping of corresponding application forms and applicable rulebooks.

Implementation of the Central Securities Depositories Regulation (EU) No 909/2014

On 15 April 2014, Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on Central Securities Depositories and amending directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (Central Securities Depositories Regulation) [CSDR] was adopted by the European Parliament, and subsequently adopted by the Council of the European Union on 23 July 2014.

The Regulation is aimed at enhancing the safety and soundness of the financial system. Together with EMIR and MiFID II it will provide the framework in which systemically important securities infrastructures (trading venues, central counterparties, trade repositories and central securities depositories) will be subject to common rules on a European level.

The CSDR entered into force on 17 September 2014 and is directly applicable in all European Member States. The main component of the CSDR is the harmonisation of settlement discipline across Europe. These consist of a common set of measures which European CSDs will have to adopt in order to prevent and address settlement failures.

A number of principles relating to settlement discipline are already set out in a very detailed Article 7. Nevertheless, on 1 February 2016 ESMA issued a final report in relation to the regulatory technical standards on settlement discipline under the CSDR, which was submitted to the European Commission for endorsement.

The European Commission is currently in the process of endorsing the regulatory technical standard recommended in the report which will in turn trigger a non-objection period before the European Parliament and Council. These rules will then enter into force two years after their publication in the Official Journal of the European Union.

Consultation on New Conduct of Business Framework

Following the establishment of the CSU in 2015 the Authority stepped up its work on the completion of a regulatory framework for securing appropriate client protection in financial services through a supervisory regime that seeks to address potential or emerging risks for financial services clients. This exercise also includes the strengthening of the responsibilities of regulated persons in the fair treatment of customers.

On 11 April 2016 the MFSA launched the second phase of a consultation procedure initiated in 2015 through the publication of a "Consultation document relating to the creation of a proposed Conduct of Business Rulebook" (Ref. 04/2016). The Rulebook is aimed at setting out the regulatory requirements of regulated persons, insofar as their conduct vis-à-vis clients, is concerned.

This followed on the previous consultation undertaken by the MFSA on the 6 May 2015 for the first phase of the consultation procedure on the proposed Conduct of Business Rulebook (Ref.04/2015), which had tackled the topics of: (1) Client Disclosures and Reporting; (2) Product Governance; and (3) Conflicts of Interest. The first phase of this consultation procedure had been concluded on the 10 July 2015.

The Conduct of Business Rulebook is addressed to persons licenced under the Investment Services Act (Cap 370) (excluding custodians); to persons carrying on insurance activities in terms of the Insurance Business Act (Cap 403) or the Insurance Intermediaries Act (Cap 487) (insurance undertakings and insurance intermediaries); individuals who work with or advise such entities, and persons licenced as credit institutions under the Banking Act (Cap 371) which sell or advise clients in relation to structured deposits.

The purpose of the second phase of consultation was to obtain feedback on the following chapters in the proposed Conduct of Business Rulebook:

1. Selling Process and Practices (including Contractual Agreement with Clients)
2. Execution of Clients' Orders.

The draft rules are mainly a transposition of the relevant requirements set out in the relevant EU directives, as well as relevant Level 2 measures. The MFSA is also closely following developments relating to RTSs being proposed by ESMA and EIOPA which could result in changes to the Conduct of Business Rulebook. The approach taken in drafting the Rulebook reflects the one adopted at EU level, whereby cross-sectoral legislation is being promoted to ensure consistency in the financial markets.

A feedback statement will be issued by the MFSA on all the chapters of the proposed Rulebook, on conclusion of the entire consultation procedure together with publication of the final Rulebook. Regulated persons will be granted a transitional period to comply with requirements emanating from this new Rulebook.

Other Developments

Consultation Document on proposed review to Chapter 11 of the Listing Rules on Takeover Bids

In the past few years there has been an increase in the number of takeover bids taking place for securities listed on the MSE to which the provisions of Chapter 11 of the Listing Rules applied. On this basis the Authority decided to request interested parties to contribute to a revision process by suggesting amendments to Chapter 11 which they believe are required or would be beneficial. The Consultation period closes on 28 March 2017.

Investment-based Crowdfunding Discussion Paper

Crowdfunding is an emerging alternative form of financing and refers to open calls to the wider public, typically through the internet, to finance a specific project. Crowdfunding campaigns typically collect small contributions from a large number of individuals. On one side of a crowdfunding transaction there is a person with an idea for a project who sets up a crowdfunding campaign (project owner or campaigner), and on the other side many people who give money to realise this idea (contributors). Under the umbrella term 'crowdfunding', there exist different models of crowdfunding depending on the instrument used to contribute the funds. In investment-based crowdfunding, companies issue equity or debt instruments to crowd-investors through a platform.

In March 2014, the European Commission adopted a package of measures to stimulate long-term financing and support sustainable growth in the EU. Improving Small to Medium Enterprises (SME's) access to financing through crowdfunding, is part of this work plan. The ESAs have also carried out work on crowdfunding, in their respective areas of responsibility. Most notably, in December 2014 the ESMA published advice and an opinion on investment-based crowdfunding. These ESMA Papers have provided national competent authorities with some clarity on how crowdfunding fit within the existing EU Rules. However, a Commission Working Document issued on 3 May 2016, ruled out any action at EU level in the near future. The working document demonstrates that crowdfunding remains relatively small in the EU, and given the predominantly local nature of crowdfunding, there is no strong case for EU wide policy intervention at this juncture.

In this context, on 3 November 2016 the MFSA issued a consultation paper with the purpose of initiating discussion on the subject of 'Investment-based Crowdfunding'. The Discussion Paper analysed the nature of investment-based crowdfunding, its risks and opportunities, and provides the Authority's views as to the appropriate regulatory approach.

Online Forex policy update

On 17 October 2016 the MFSA issued a consultation document on a proposed policy update on Online Distributing or Intending to Distribute Contracts for Difference (CFDs) and/or Rolling Spot Forex Contracts under the MiFID Regime. The update continued building on policy work carried out during the previous two years and which was implemented through a public notice setting out the criteria for the approval of online forex trading activities, published on 30 July 2015.

The purpose of the 2016 policy update was to effect changes in relation to the required shareholding structure of applicants for a Category 2 or Category 3 Investment Services Licence who intend to get involved in the distribution of complex speculative products in terms of the Investment Services Act (Cap. 370). These requirements outlined in the first part of the paper would be applicable for new applicants only.

The second part of the consultation paper proposed the introduction of new requirements relating to leverage limits and slippage settings which would apply to all firms, including those currently licenced. Part three of this paper dealt with the proposed Transitory Period to be granted by the MFSA to the currently licensed firms in order for these to come in line with the requirements of the policy published on the 30 July 2015. The consultation closed on 18 November 2016 and the updated policy was published during the first quarter of 2017.

LICENSING

The financial services sector continued to experience the steady levels of growth recorded in previous years. A significant increase in licences and authorisations for the carrying out of various types of activities was registered in the investment services, trusts, pensions and insurance business sectors.

Credit and Financial Institutions

As shown in Table 10, at end 2016, 27 entities held an MFSA licence to operate as a credit institution in terms of the Banking Act (Cap. 371), one less than the previous year. This came about as a result of a voluntary surrender of licence by Deutsche Bank (Malta) Limited in July 2016.

Table 10: Authorised credit and financial institutions (2014 - 2016)

	Total licences at end 2014	Total licences at end 2015	Total licences at end 2016
Credit Institutions	27	28	27
Financial Institutions	32	40	42
Of which:			
Authorised to provide payment services	22	26	28
Authorised to issue electronic money	7	10	12

Source: Malta Financial Services Authority

In 2016, the Authority licensed three new companies to transact the business of a Financial Institution in terms of the Financial Institutions Act (Cap. 376) while another company surrendered its financial institution licence. This brings the total number of licenced financial institutions to 42, two more than the previous year. Of these, 28 were licenced as payment institutions while 12 were electronic money institutions. A number of these institutions hold a dual licence to provide both payment and electronic money services.

EPG Financial Services Limited was licensed to provide payment services while Nobel Financial Limited and Emerge Global Limited were licensed to provide payment services and to issue electronic money. Additionally, Fexserv Financial Services Limited, Swish Payments Limited, and Finco Treasury Management Limited had their licences extended to carry on additional activities in terms of the Financial Institutions Act (Cap 376).

In May 2016, International Transaction Payment Solutions (Malta) Limited voluntarily surrendered its financial institution licence.

Insurance Business

At the end of the year, 60 insurance undertakings held an authorisation to carry on insurance and reinsurance activities in terms of the Insurance Business Act (Cap. 403). This represents a net increase of two undertakings from the previous year.

During 2016, the Authority authorised three new insurance undertakings to carry on business in terms of the Insurance Business Act (Cap. 403). Hillwood Limited was authorised to carry on business of insurance in 16 classes of the general business while R&Q Insurance (Europe) Limited was authorised to carry on business of insurance and reinsurance in 18 classes of the general business. Fresenius Medical Care Global Insurance Limited was authorised to carry on business as a captive reinsurance undertaking in two classes of the general business.

The Authority also approved four new cells to write business in terms of the Companies Act (Cell Companies Carrying on Business of Insurance) Regulations, 2004. These include Cell A20 of White Rock Insurance (Europe) PCC Limited, Cell 1 of DARAG Malta Insurance and Reinsurance PCC Limited, Gemini Cell of Atlas Insurance PCC Limited and Freedom Health Cell of Advent Insurance PCC Limited. As at end 2016, there were 32 approved cells within 12 protected cell companies. Table 11 refers.

Table 11: Authorised insurance undertakings (2014 - 2016)

	Total licences at end 2014	Total licences at end 2015	Total licences at end 2016
Non-Life	45	42	45
Life	6	7	7
Composite	2	2	2
Reinsurance	7	7	6
TOTAL	**60**	**58**	**60**
of which:			
Affiliated	*10*	*7*	*8*
Protected Cell Companies (and cells)	*11 (27 cells)*	*12 (29 cells)*	*12 (32 cells)*
Insurers of Domestic origin	*9*	*8*	*8*

Source: Malta Financial Services Authority

Exchange Re SCC Limited was authorised to carry on business as a Reinsurance Special Purpose Vehicle in terms of the Reinsurance Special Purpose Vehicles Regulations (2016). This entity is constituted as a Securitisation Cell Company in accordance with the Securitisation Cell Companies Regulations (2014).

Table 12: Reinsurance Special Purpose Vehicles (2016)

	Total licences at end 2016
Reinsurance Special Purpose Vehicles	1

Source: Malta Financial Services Authority.

Trinity Lane Insurance Company Limited, Cafina Assurances Limited and ArgoGlobal SE had their licences extended to carry on business of insurance in additional classes of the general business. Multi Risk Indemnity Company Limited was granted extension to its authorisation to carry on business of insurance and reinsurance in two classes of the general business and two classes of business of reinsurance in long term business. The Authority also extended the authorisation granted to Liberty Global Insurance Company Limited to carry on business of reinsurance in two additional classes of the long term business and one class of the general business.

The Authority also issued approvals to Real Estate Insurance Cell (a protected cell of HighDome PCC Limited) and Cell A2 (a protected cell of White Rock Insurance (Europe) PCC Limited) to carry on business of insurance in one additional class of the general business.

Multi Risk Benefits Limited, a company authorised to carry on business of insurance in terms of the Insurance Business Act (Cap 403) entered into a voluntary merger with Multi Risk Indemnity Company Limited, a company which is also authorised to carry on business of insurance and reinsurance in terms of the Insurance Business Act (Cap 403). Consequently, Multi Risk Benefits Limited's authorisation ceased to be operative with effect from the merger.

Totemic Cell 2 of Atlas Insurance PCC Limited ceased operations in course of the year.

Insurance Intermediaries – Companies

In 2016, HSBC Insurance Management Services (Europe) Limited, Kane LPI Solutions (Malta) Limited and Alternative Risk Management (Malta) Limited ceased to carry on insurance management activities in terms of the Insurance Intermediaries Act (Cap 487). IIM Limited also ceased to carry on insurance intermediaries activities after it merged with USA Risk Group (Malta) Limited. This brings the total number of enrolled insurance managers at 11, of which three are established as Protected Cell Companies.

The Authority approved the enrolment of guard.me International Insurance Agency (Malta) Limited in the Agents List in terms of the Insurance Intermediaries Act (Cap 487) while Citadel Health Insurance Agency Limited, Allcare Insurance Agency Limited, and Millennium Insurance Agency Limited ceased to carry on insurance agency activities in terms of the Insurance Intermediaries Act (Cap 487).

Table 13 depicts the number of authorised insurance intermediaries for the period 2014-2016.

Table 13: Authorised insurance intermediaries – Companies (2014 - 2016)

	Total licences at end 2014	*Total licences at end 2015*	*Total licences at end 2016*
Enrolled Insurance Managers	15	15	11
Of which PCCs (and cells)	3 (2 cells)	3 (2 cells)	3 (2 cells)
Enrolled Insurance Agents	17	17	15
Enrolled Insurance Brokers	30	30	30
Of which PCCs (and cells)	2 (2 cells)	2 (3 cells)	2 (3 cells)

Source: Malta Financial Services Authority

The Authority also approved the enrolment of Templar EIS Limited, Mulberry Brokers Limited, and Tempus Global Group Insurance Brokers Limited in the Brokers List in terms of the Insurance Intermediaries Act (Cap 487), while International Insurance Brokers Limited, Ark Insurance Brokers Limited, and GlobalCapital Insurance Brokers Limited ceased to carry on business of insurance broking. There were 30 enrolled insurance brokers at the end of 2016, of which two are established as Protected Cell Companies.

Registered Individuals

Article 11 of the Insurance Intermediaries Act (Cap 487), requires that no person shall act as insurance agent or insurance manager unless one or more of the company's directors are registered in the Agents' Register and the Managers' Register and the insurance intermediaries activities are carried out under the management of a registered person.

In 2016, four new individuals were entered in the Managers Register, three in the Agents Register and 15 in the Brokers Register. As at end of year, there were 24 individuals registered on the Managers' Register, 31 individuals' registered on the Agents' Register and 94 on the Brokers Register. Furthermore, 473 individuals and companies were enrolled in the Tied Insurance Intermediaries List. Table 14 refers.

Table 14: Authorised insurance intermediaries – Individuals (2014 – 2016)

	Total licences at end 2014	Total licences at end 2015	Total licences at end 2016
Registered Insurance Managers	23	25	24
Registered Insurance Agents	28	31	31
Registered Insurance Brokers	86	92	94
Tied Insurance Intermediaries[1]	479	481	473

Source: Malta Financial Services Authority

Pensions

The Retirement Pensions Act (Cap 514) came into force on the 1 January 2015. It replaced the Special Funds (Regulation) Act (Cap. 450), and the regulations and directives issued thereunder. The Retirement Pensions (Transitional Provisions) Regulations, 2015 also provided that any scheme or arrangement, retirement fund, or any person registered in terms of the Special Funds (Regulation) Act had until the 31 December 2015 to comply with the Retirement Pensions (Cap 514).

As shown in Table 15, as at end 2016, 46 retirement schemes were registered in terms of the Retirement Pensions Act (Cap 514), a net total of ten more certificates over the previous year. The new certificates of registration were issued to Elmo US Retirement Plan, STM Malta Contract Plan, ITC Occupational Retirement Scheme, ITC Personal Retirement Scheme, STM Malta (US) Protected Retirement Plan, Harbour Retirement Scheme SICAV plc, The Bourse(US) Retirement Scheme (Malta) Limited, Synergy International Pension Plan, Gemstone Retirement Scheme, and Lifetime Pensions Private Pension Scheme.

Table 15: Registrations in terms of the Special Funds Act/ Retirement Pensions Act (2014 – 2016)

<table>
<tr><th></th><th>Total registrations at end 2014</th><th>Total registrations at end 2015</th><th>Total registrations at end 2016</th></tr>
<tr><td>Retirement Schemes</td><td>35</td><td>36</td><td>46</td></tr>
<tr><td>Retirement Funds</td><td>2</td><td>2</td><td>2</td></tr>
<tr><td>Retirement Scheme Administrators</td><td>14</td><td>15</td><td>17</td></tr>
<tr><td>Investment Managers (Registered)</td><td rowspan="2">11</td><td rowspan="2">11</td><td>5</td></tr>
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<tr><td>Back-Office Administrators (Recognised)</td><td rowspan="2">-</td><td rowspan="2">-</td><td>2</td></tr>
<tr><td>Back-Office Administrators (Exempted)</td><td>2</td></tr>
</table>

Source: Malta Financial Services Authority

The Authority also issued certificates of registration to three companies to act as Retirement Scheme Administrators in terms of the Retirement Pensions Act (Cap 514), namely to TMF International Pensions Limited, JTC Trustees (Malta) Limited and CCGM Pension Administrators Limited. As at end 2016, 17 companies were registered to act as Retirement Scheme Administrators.

Bastion Wealth Limited was registered to act as Investment Manager in terms of Article 6 of the Retirement Pensions Act (Cap 514) bringing the total number of Investment Managers on the Register to five. Another five regulated companies were granted an exemption from this requirement in accordance with the criteria established by the Retirement Pensions Act (Cap 514).

SGGG Fexserv Fund Services (Malta) Limited and STM Malta Trust and Company Management Limited were granted recognition to carry out the activities of a Back Office Administrator in terms of the Retirement Pensions Act (Cap 514) while Optimus Pension Administrators Limited and Dominion Fiduciary Services Limited were granted exemption from this requirement under the provisions of article 7 of the Retirement Pensions Act (Cap 514).

SECURITIES BUSINESS

Investment Services

Investment services continued to expand particularly with the issue of eight new Category 2 licences in the course of the year. As shown in Table 16, at end 2016, 156 companies held a licence to provide business in terms of the Investment Services Act (Cap 370), a net increase of seven over the previous year.

Table 16: Investment services licences (2015 – 2016)

	2015			2016		
	New licences	Surrendered licences	Total licences at end 2015	New licences	Surrendered licences	Total licences at end 2016
Category 1a	2	1	**13**	-	-	**13**
Category 1b	1	-	**5**	2	-	6[2]
Category 2	15	6	**109**	8	3	**115**[15]
Category 2 & 4a	1	-	**5**	-	-	**5**
Category 3	1	1	**10**	1	-	**11**
Category 3 & 4a	-	-	**2**	-	-	**2**
Category 4a	1	-	**3**	-	1	**2**
Category 4b	1	-	**2**	-	-	**2**
Total	**22**	**8**	**149**	**11**	**4**	**156**

Source: Malta Financial Services Authority

Category 2 licences were granted to Horus Malta Limited, Invest4Growth Asset Management Limited, Altruid Systems Limited, RMS FinGroup (Malta) Limited, Private Value Asset Management Limited, Flexagon Capital Management Limited, Markham Rae (Malta) Management Company Limited, and Rootstock Investment Management (Malta) Limited. Aramis Capital (Europe) Limited and Standard Advisory Services Limited were licensed as Category 1b investment services companies while TMS Brokers Europe Limited obtained a Category 3 investment services licence.

The Authority extended the licences granted to nine companies to be able to provide additional investment services activities in terms of the Investment Services Act (Cap 370). Another licensed company, namely Cevian Capital (Malta) Limited, had its licence revised from a Category 1b to Category 2 licence. Three investment services companies had their licences revised to act as full AIFMs, while another company had its licence revised to reflect its status as a European Venture Capital Fund Manager.

The Authority accepted the voluntary surrender of three Category 2 licences from Liongate Capital Management Limited, Melidon Asset Management Limited and C8 Investments Limited as well as the voluntary surrender of a Category 4a licence granted to Deutsche Bank (Malta) Limited.

Recognised Fund Administrators

In 2016, the Authority granted recognition certificates under the Investment Services Act (Cap 370) to Kane LPI Solutions (Malta) Limited and FundBPO (Malta) Limited. The Authority also accepted the voluntarily surrender of recognition certificates granted to TMF FundAdministrators (Malta) Limited and TMF FundServices (Malta) Limited. The number of recognised fund administrators at the end of the year stood at 27. Table 17 refers.

Table 17: Recognised fund administrators (2015 – 2016)

	2015			2016		
	New recognitions	*Surrendered recognitions*	*Total recognitions at end 2015*	*New recognitions*	*Surrendered recognitions*	*Total recognitions at end 2016*
Recognised Fund Administrators	1	1	**27**	2	2	**27**

Source: Malta Financial Services Authority

Collective Investment Schemes

As shown in Table 18, over the course of the year, 113 new investment funds (including sub-funds) were licensed by the Authority. These included 19 AIFs, 71 PIFs and 23 UCITS funds. Of these, four were authorised as Incorporated Cells of Recognised Incorporated Cell Companies. Additionally, 18 PIFs and three Retail Non-UCITS funds had their licences converted to AIFs.

Table 18: New and surrendered collective investment schemes (including sub-funds) (2014 – 2016)

	2014		2015		2016	
	New licences	*Surrendered licences*	*New licences*	*Surrendered licences*	*New licences*	*Surrendered licences*
AIFs	6	-	11	3	19	8
Of which ICs	-	-	-	-	-	*1*
PIFs	100	97	78	92	71	51
Of which ICs	*8*	*5*	*10*	*3*	*4*	*7*
Retail Non-UCITS	-	9	-	-	-	-
Recognised Private Schemes	1	-	3	-	-	-
UCITS	11	17	20	2	23	14
Of which ICs	*1*	-	-	-	-	*1*
Total	**118**	**123**	**112**	**97**	**113**	**73**

Source: Malta Financial Services Authority

The Authority accepted the voluntary surrender of eight AIFs (of which one was licensed as an Incorporated Cell), 51 PIFs (of which seven were licensed as Incorporated Cells), and 14 UCITS Funds (of which one was licensed as an Incorporated Cell).

In April 2016, the Authority announced the launch of a new framework for the notification of Alternative Investment Funds (NAIFs). Two funds were included in the list of Notified AIFs by the end of the year.

Table 19: Notified Alternative Investment Funds (2016)

	2016	
	New notifications	Surrendered notifications
NAIFs	2	-

Source: Malta Financial Services Authority

Recognised Incorporated Cells Companies (RICCs)

The Authority issued a recognition certificate to Water Lane Investment RICC Limited to provide administrative services to incorporated cells, while Sei Private Invest Fund RICC Limited surrendered its recognition certificate. Four new funds were licensed as Incorporated Cells of different RICCs during the year, while nine ceased to be licensed by the Authority. At the end of 2016, there were five RICCs servicing a total of 17 Incorporated Cells. Table 20 refers.

Table 20: Recognised incorporated cell companies (2015 - 2016)

	2015			2016		
	New licences	Surrendered licences	Total licences at end 2015	New licences	Surrendered licences	Total licences at end 2016
Recognised Incorporated Cell Companies	1	-	**5**	1	1	**5**
Incorporated Cells	10	3	**22**	4	9	**17**

Source: Malta Financial Services Authority

Trust Services

Twelve new authorisations were granted by the Authority in terms of the Trusts and Trustees Act (Cap 331) while two companies surrendered their authorisation in 2016. This brings the number of authorisations under the Trusts and Trustees Act at the end of the year to 158, nine more than the previous year. Table 21 refers.

Table 21: Authorised trustees, nominees and trusts (2014 – 2016)

	Total authorisations at end 2014	Total authorisations at end 2015	Total authorisations at end 2016
Authorisations in terms of the Trusts and Trustees Act (Trustees/ Fiduciary Service Providers/ Administrators of Private Foundations)	142	148	158
Nominees[3]	16	13	12
Trusts registered in terms of the Trust Act, 1988[4]	89	71	71

Source: Malta Financial Services Authority

Company Service Providers

The Authority issued 74 new registration certificates to companies or individuals providing services in terms of the Company Service Providers Act (Cap 529). During the same year the Authority accepted the voluntary cancellation of one registration certificate. As shown in Table 22, at end 2016, there were 140 company services providers, 73 more than the previous year.

Table 22: Company service providers (2014 - 2016)

	Total registrations at end 2014	Total registrations at end 2015	Total registrations at end 2016
Registrations in terms of the Company Service Providers Act	9	67	140

Source: Malta Financial Services Authority

Securitisation Vehicles

During the year under review, the Authority issued acknowledgments in terms of Article 18 of the Securitisation Act (Cap 484) to 16 companies of which eight were Securitisation Cell Companies. Moreover, twelve digits were issued with an acknowledgement in terms of Regulation 22 of the Securitisation Cell Company Regulations. As shown in Table 23, at the end of 2016, there were 34 notified securitisation vehicles of which 10 were Securitisation Cell Companies.

Table 23: Notifications in terms of the Securitisation Act (2014 – 2016)

	Total notifications at end 2014	Total notifications at end 2015	Total notifications at end 2016
Notified Securitisation Vehicles	9	18	34
Of which notified Securitisation Cell Companies *(and cells)*	-	2 *(1)*	10 *(13)*

Source: Malta Financial Services Authority

Listing Authority

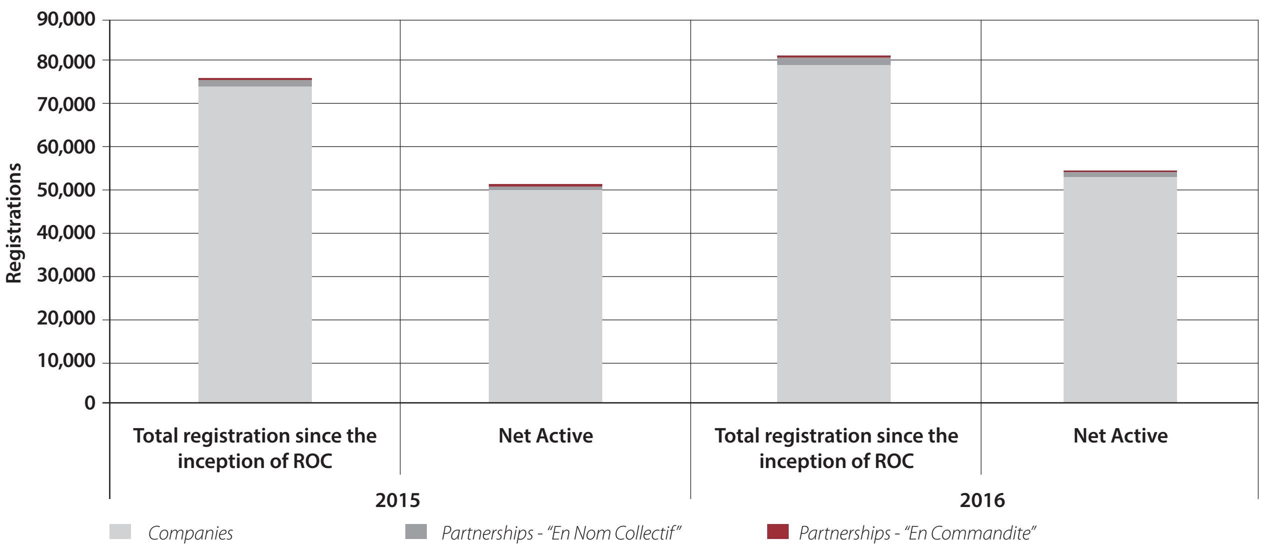
The Listing Authority approved the admissibility to listing on the MSE of one equity issue, ten corporate bond issues, six Malta Government Securities, and four investment funds. The Listing Authority also admitted one asset backed security, two bonds and three note issues to listing on the European Wholesale Securities Market (EWSM).

THE REGISTRY OF COMPANIES

Total Registrations and Active Registrations

As shown in Chart 18, at the end of 2016, the total number of companies registered in the Registry of Companies (ROC) reached 79,193 - of which almost 67% (52,949 companies) were considered to be active companies. Moreover, there were 1,647 partnerships - "En Nom Collectif" and 185 partnerships - "En Commandite" registered in the ROC, of which 57% (or 944 partnerships - "En Nom Collectif") and 39% (or 73 partnerships - "En Commandite") respectively were considered active.

Chart 18: Total registrations against net active registrations (2015 – 2016)

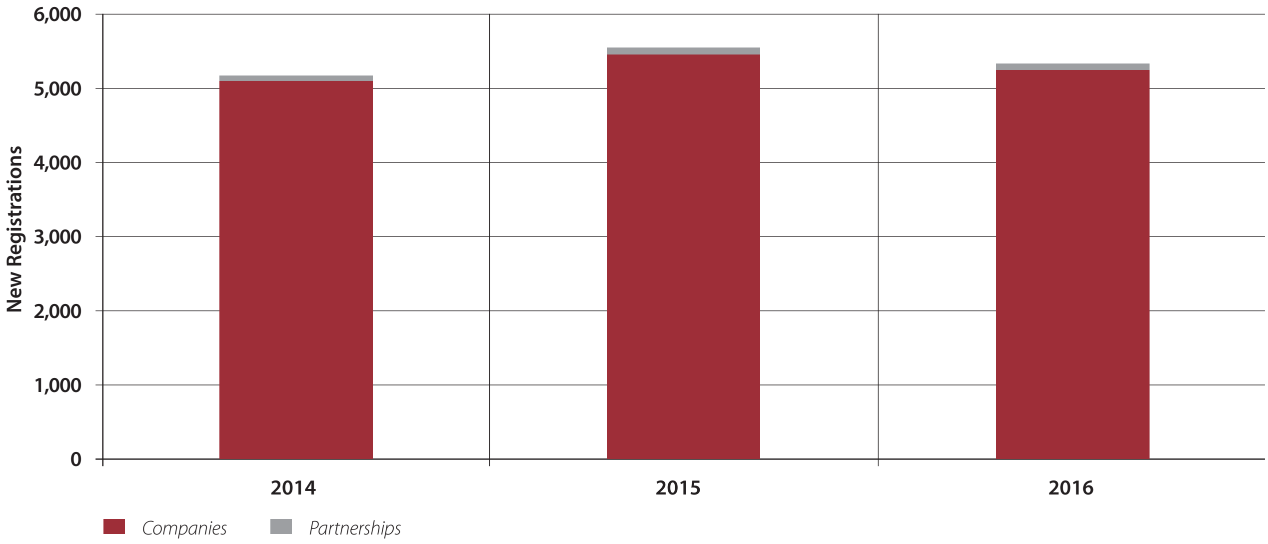


Source: Malta Financial Services Authority

New Registrations

Over the course of the year, 5,166 new companies and 103 partnerships were registered in the ROC. While the number of new registered companies declined by almost 5%, there was an increase of 17% in the number of registered partnerships compared to the previous year, as shown in Chart 19 covering new registrations for the period 2014-2016.

Chart 19: New registrations (2014 – 2016)



Source: Malta Financial Services Authority

Mergers and Liquidations

In 2016, as shown in Table 24, 1,567 companies were placed into liquidation while 214 companies merged.

Table 24: Mergers and liquidation of companies (2014 – 2016)

	Mergers	*Total companies placed into liquidation*
2014	191	1,171
2015	299	1,391
2016	214	1,567

Source: Malta Financial Services Authority

Redomiciliation of companies

As indicated in Table 25, during 2016, there were 99 companies which transferred their domicile to Malta in terms of the Continuation of Companies Regulations under the Companies Act (Cap 386), of which 25% transferred their domiciles to Malta from other EU countries.

Table 25: Total inward redomiciled companies (2014 – 2016)

	Total redomiciled companies
2014	85
2015	92
2016	99

Source: Malta Financial Services Authority

Table 26 provides an analysis of objects clauses of the various types of companies that redomiciled to Malta during the year.

Table 26: Breakdown of redomiciled companies in 2016 by type of business

Category	2016
Betting/Gambling/Gaming	2
General Trading	5
Holding	68
Insurance	1
IT Activities	4
Marketing/Promotion/Consultancy	5
Property Activities	2
Real Estate	2
Securities	3
Transportation	1
Trust Management	1
Other	5
Total	**99**

Source: Malta Financial Services Authority

Furthermore, 32 companies continued their operations outside Malta, 14 more than the preceding year.

New Notifications for Inward Cross-Border Services

The Authority received the following new notifications from entities intending to passport their services into Malta via the freedom of services, as shown in Table 27. These notifications were received through the respective Home Member State regulators under the relevant EU legislation establishing the single market for financial services:

Table 27: New notifications of passporting into Malta via the freedom of services (2016)

	New notifications
European Credit Institutions	**33**
European Financial Institutions	**84**
European Insurance Undertakings	**46**
European Insurance Intermediaries	**177**
Investment Services	**172**
UCITS Schemes (including sub-funds)	**10**
EU AIFMs marketing in Malta	
AIFMs	**8**
- relevant number of AIFs	**10**
Sub AIFs	**2**
EU AIFMs managing AIFs or providing ancillary activities in Malta	
AIFMs	**16**
- relevant number of AIFs	**6**
EuVECAs marketing in Malta	
EuVECA Managers	**4**
EuVECA Funds	**4**

Source: Malta Financial Services Authority

Additionally, one electronic money institution notified the Authority that it will be passporting into Malta via the freedom of establishment.

New Notifications for Outward Cross-Border Services

The Authority received the following notifications from new entities intending to passport out of Malta via the freedom of services, as shown in Table 28. The relevant notifications were forwarded to the regulators of the respective Host Member State:

Table 28: New notifications of passporting outside Malta via the freedom of services (2016)

	Number of new notifications
Credit Institutions	4
Financial Institutions	4
Investment Services	9
UCITS Schemes (including sub-funds)	10
Insurance Undertakings	2
Insurance Intermediaries	3

Maltese AIFMs managing AIFs or providing ancillary activities out Malta	
AIFMs	9
- relevant number of AIFs	4
Maltese AIFMs marketing into EU	
AIFMs	10
- relevant number of AIFs	10
Sub AIFs	15

Source: Malta Financial Services Authority

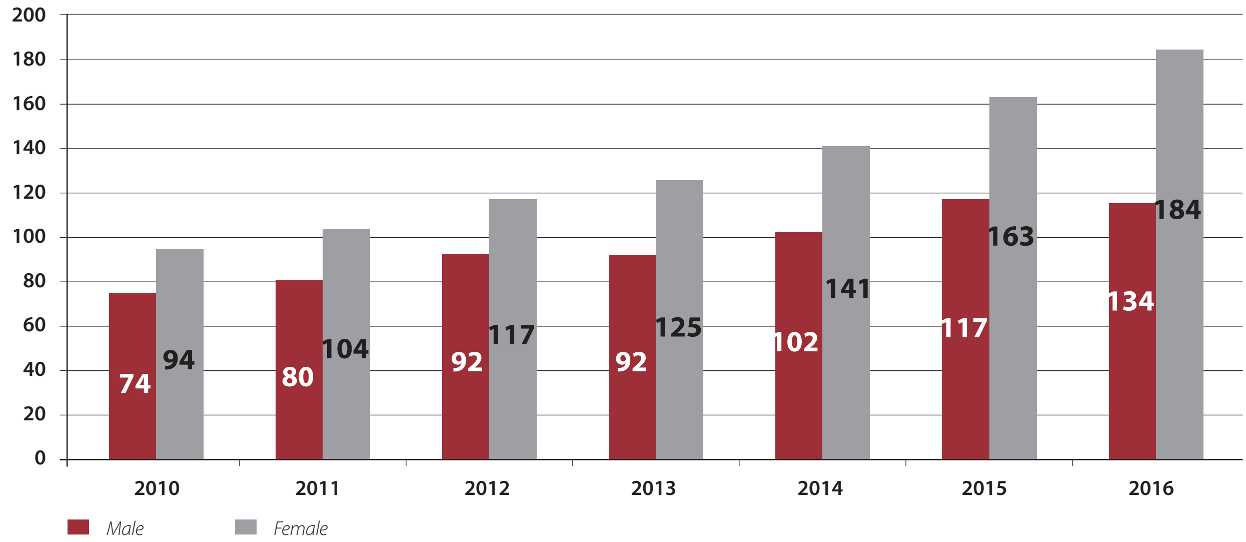
Furthermore, one investment services company and one insurance undertaking notified the Authority that they will be passporting out of Malta via the freedom of establishment.

DEVELOPMENT OVERVIEW

HUMAN RESOURCES DEVELOPMENT

Chart 20 illustrates MFSA's progression on headcount, by gender, since 2010. The figure stood at 318 on 31 December 2016.

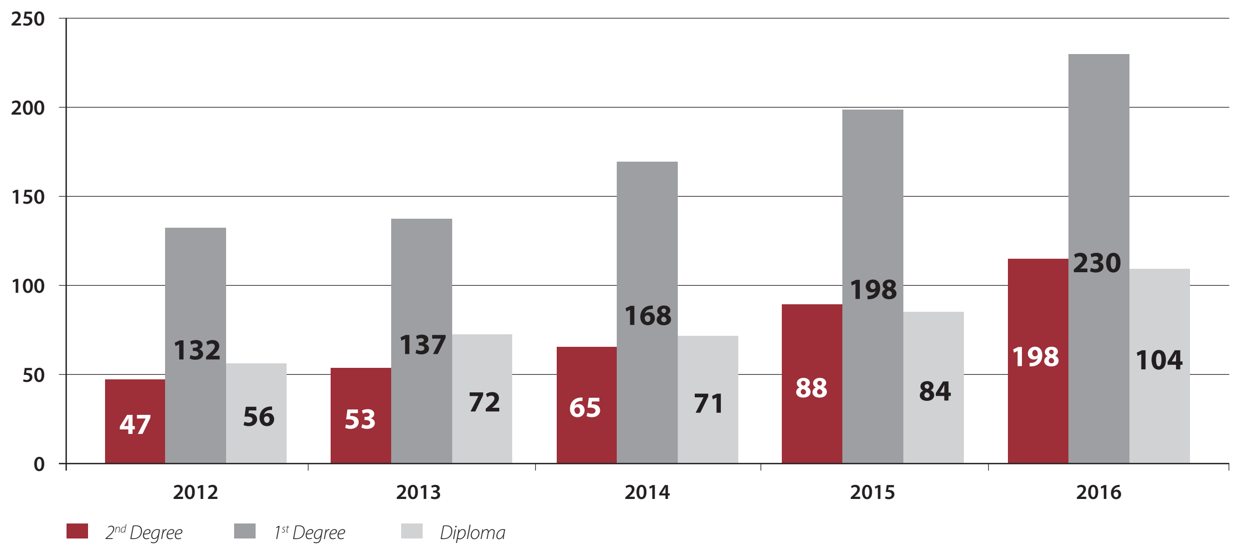
Chart 20: MFSA Employees 2010-2016



Source: Malta Financial Services Authority

During 2016, 71 persons were recruited while 33 resigned; and one person reached retirement age. During this period, there were also 59 staff members who were appointed for another grade, following an internal/external filling of a vacancy procedure.

Chart 21: Qualified staff



Source: Malta Financial Services Authority

As at end 2016, as shown in Chart 21, 230 staff members held a first degree whereas 108 held a post graduate degree or equivalent. Furthermore 104 persons were in possession of a diploma in a vocational discipline.

During the year under review, the MFSA continued to show its commitment to the training and development of staff and others either working within the financial services sector or interested in acquiring knowledge on related areas. This involved the coordination of training for staff members and further collaboration with stakeholders and training service providers. During the same period, the Human Resources & Development Unit (HR Unit) continued one of its main roles, providing training courses for the Education Consultative Council (ECC), the arm of the MFSA which reaches out to those interested in qualifying and/or pursuing a career in the financial services sector.

Employee Training and Development

The MFSA carries out its commitment to training and development through the HR Unit, which monitors and analyses training needs of employees across all categories. Among other functions related to training, the HR Unit administers and manages the Self Development Scheme, providing employees with financial support when pursuing further studies to enhance their work-related knowledge. The scheme provides for courses leading to Diplomas/First Degrees/Post Graduate qualifications. During the course of studies, the HR Unit provides advice and ancillary services as requested.

As at 31 December 2016, 75 persons were undertaking studies related to some area relevant to the financial services sector, which include: accounting, Information & Communications (ICT) related studies, actuarial techniques, insurance related disciplines, trusts and estate management, anti-fraud and law.

With regard to overseas activities, a considerable number of employees gained further technical expertise through active participation in working groups organised by the EBA, ESMA, EIOPA and the ECB.

Local Seminars and In-house Training

One of the MFSA's functions is to identify skills gaps, analyse training needs and propose programmes both in-house and for the industry. The pro-active stance enables the MFSA to ensure levels of efficiency and enhance workforce capabilities in management, technical areas and soft-skills.

The MFSA coordinates its training initiatives with local educational institutes/providers to ensure that programmes being offered to the general public are relevant, structured, and of a high quality to meet the current needs of the industry.

In 2016 the HR Unit contributed towards in-house training for MFSA staff in the following areas: Induction Programmes for new recruits, EU Procedures Training, NFA Training Forex, Leadership Skills & Strategic Planning for Directors, IPSU internal training sessions on PCC and Own Funds & Captives & Supervisory Review Process / Supervisory Assessment of the Prudent Person Principle / Impact of Market Risk on the Solvency Capital Requirement / Deferred Taxation & Adjustment for the Loss Absorbing Capacity of Deferred Taxes, IMAS Training for LSIs 2016, Anti-Money Laundering: Combating Financing of Terrorism Training, Strategic Planning Workshop for Directors, Fire-fighting & Marshalling Course, Seminar on the Relations between EU Presidency & the European Parliament, IMAS 2.0 (OSI Module), Third FSI-IAIS Regulatory & Supervisory Training, Banking Supervision Unit internal training on IFRS 9 Financial Instruments, CSU Presentation on PRIIPS, IMAS 2.1 Authorisations & SEP, and Authorisation Unit's internal training session on the first of a series of Regulatory Briefings.

Moreover, the MFSA provided training opportunities to members of the staff locally. These included training programmes, courses, seminars and conferences which were organised by renowned training providers. Overall, 232 employees from all Units attended training events which were held by Central Bank of Malta, Castille Institute, University of Malta, MISCO, MII, Ernst & Young, AIM Academy, ISACA, Finance Malta, PricewaterhouseCoopers Academy, Malta Institute of Accountants, Institute for Financial Services Malta, Institute of Financial Services Practitioners, Chamber of Advocates, Society Education, Malta International Training Centre, Institute for Professional Development (Malta), Institute of Legal Studies Malta, Foundation for Human Resources Development, Malta Institute of Management, Institute of Directors, Malta Insurance Institute, Malta Forum for Internal Auditors, and KPMG, among others. Such training activities amounted to 6241 hours in 2016.

During 2016, two foreign students took part in a six-week Internship Programme initiated by the Deutsche Bundesbank, where they gained experience relating to authorisation and supervision duties carried out by various internal Units. Another student took part in a Traineeship Programme within the Office of the Director General. The MFSA also participated in the ECB's Traineeship Programme, hosting a graduate for four months, from 1 October 2016.

Participation in the ECB's Human Resources Conference (HRC), the Ethics Framework and the Anti-Fraud Policy
In 2016, staff within the MFSA's HR Unit continued to attend and participate actively in the HRC's substructure Task Force on Training and Development (TFTD) and the Ethics Frameworks Task Force (EFTF) meetings in Frankfurt.

HRC's main focus continued to be SSM policies, with particular emphasis on common travel arrangements for on-site missions, performance feedback and the mobility opportunities between the European System of Central Banks (ESCB) and the National Competent Authorities (NCAs). In areas of training, in December 2016 the MFSA endorsed a Memorandum of Understanding with the ECB to take part in the Schuman Programme, which involves in-house projects being entrusted to staff members from other ESCBs or NCAs. During the year under review, Training Managers were also given instruction on the Darwin's Training Coordination Tool, which is intended to be upgraded on a continuous basis.

As a result of the previous preparatory work involved in the setting up of an ethics framework with the ECB, the ethics framework of the MFSA was launched on 1 June 2016. It involves a set of guidelines on avoidance of conflict of interest, prevention of misuse of inside information and acceptance of gifts, hospitality and other advantages. The HR Unit of the MFSA carried out a series of 'Awareness Sessions on the Ethics Framework'. The Unit acts as a reference point to those seeking clarifications, with the Chief Operations Officer acting also as the Ethics Officer.

This also fed into the launching of an Anti-Fraud Policy, which came into effect on 1 September 2016.

EDUCATION CONSULTATIVE COUNCIL

Careers in the Financial Services Sector
The HR Unit sits on the Education Consultative Council (EEC) and provides secretarial duties, covering administration, logistics arrangements, technical support and management of its initiatives.

During 2016, the ECC has once again honoured its commitment towards the promotion of in-service and pre-service professional training and education within the financial services sector. It liaised with various training providers on areas related to courses, analysis of training gaps, promotion of careers, organisation of events and maintenance of its careersinfinance website.

The ECC was also instrumental in providing the latest information to secondary and post-secondary students who visit the MFSA throughout their scholastic year. Such visits are aimed at promoting careers among students within the financial services sector.

The following shows the areas in which the HR Unit assisted the ECC in these areas:

- Continuous maintenance of the careersinfinance website, with emphasis on members' forthcoming courses, updates and presentations.

- Organisation of school visits for scholastic year 2015-2016. The visits consisted of a presentation on the meaning of 'financial services', information on qualifications and skills required by the finance industry. The MFSA hosted 21 visits, which were attended by 27 different schools/colleges. The number of attending students totalled 744.

- Following a request made to the ECC by the Institute of Financial Services Malta (ifs Malta), to regulate financial advice given in Malta, the MFSA set up an internal committee composed of representatives from the Authorisation, Conduct Supervisory, Securities & Markets Supervision and HR Units respectively to evaluate proposals submitted by the ifs (Malta) on the minimum qualifications required for financial advisers. Preparatory work and discussions between MFSA and ifs (Malta) are still ongoing. The discussions include: terms and conditions stipulated by ifs (Malta) in their proposal regarding regulations on financial advisers, minimum qualifications, transitory arrangements, minimum required training hours for Continuous Professional Development (CPD), and monitoring of CPD hours.

- As part of the ECC's function to promote careers, the MFSA hosted four students from the Institute of Business Management & Commerce (MCAST) for a period of 5 weeks, in June and July 2016.

During 2016, the European Banking Institute (EBI) was set up to conduct high-quality research on legal and economic aspects of banking regulation, supervision and resolution. During the year under review, the MFSA's ECC entered into an agreement with the Ministry of Education to provide financial support to the latter's scholarship schemes. The initiative comprises grants of €50,000 for each of the next two years.

- Guests were invited to deliver a presentation to ECC members in 2016:

    - Mr David Spiteri Gingell, Adviser within the Ministry for the Family & Social Solidarity, gave a presentation on the National Strategy for Retirement Income and Financial Literacy, the aim of which is the security of pensions in retirement.

    - Mr Joe Farrugia, Director General of the Malta Employers' Association, focused his discussion on a number of challenges which employers are currently facing, mainly the MFSA's potential educational role and the need to better promote financial services as a career opportunity, not only among those with a financial background.

- The Students' Job Exposure Programme (2015-2016) was held between November 2015 and July 2016. Through this initiative, the ECC provides the necessary support to students who aim to acquire knowledge and information governing the financial services sector. These include: required skills, qualifications, job opportunities and careers related to the sector. It also facilitates a work-related experience for all participating students and, in doing so, promotes careers within the finance industry. The activity is coordinated with employers who, in turn, gain from making observations on students' potential during the respective placement week. A total of 43 participating firms hosted 116 students.

INFORMATION AND COMMUNICATION TECHNOLOGIES UNIT

The ICT Unit provides operational support to other Units and is responsible for managing the ICT resources of the Authority, efficiently supporting the overall business strategy. This is achieved with the provision of reliable services, systems and technologies, enabling the MFSA to maximise the value of its information and knowledge while working with a mixture of in-house resources and outsourced technology suppliers. The ICT unit additionally provides information security analysis to the regulatory and supervisory units. It has membership of and participate in the expert groups and committees within the European fora.

The ICT Unit encompasses three specialised areas: (i) Information Systems, (ii) Systems Infrastructure, and (iii) Support Services and Operations. During the year, a restructuring exercise was initiated to strengthen the ICT Unit organigram and management functions. Despite the challenges of an increased workload, the ICT Unit continued to provide services in order to meet business targets and adhere to the demands of European bodies. The ICT Unit participated in a number of IT committees, expert groups, and project workgroups associated with each regulatory and supervisory sector and also the ROC.

Information Systems Section

The Information Systems Section develops and administers software applications that gather, process and turn raw business data into meaningful information. This increases the MFSA's performance in terms of cost effectiveness, productivity and internal communication. Through Information Systems and Database Management Systems the MFSA is in a better position to execute decisions, devise strategies, and adhere to statutory and regulatory requirements.

Registry of Companies Online System

In order to enhance security, improve business operations, increase productivity, and offer a superior service to the general public, the ICT Unit embarked on an ambitious project to overhaul the entire ROC Online System. This commitment resulted in a great number of ROC Online System bug fixes and system enhancements. In addition, over nine months of intensive systems analysis resulted in a comprehensive proposal for the redevelopment of the ROC System which will feature a new user interface, enhanced automation in the calculation and issuing of notifications and penalties for Annual Returns and Annual Accounts, upgrading the entire platform to make it compatible with multiple web browsers, and upgrading the digital signing technology to further strengthen the legality of electronic documents.

Regulatory and Supervisory Systems

An increase in financial regulation to maintain the integrity of the Maltese financial ecosystem and boost market confidence, while protecting consumers, required further development of software systems. The increased demand of the License Holder web portal, together with changing regulatory requirements, led the ICT Unit to commence a thorough analysis of how data exchange between the Authority and License Holders could be better facilitated. To complement the Licence Holder portal, a centralised user authentication project was initiated, and will be finalised over the next calendar year. Moreover, the ICT Unit redeveloped the MiFID II system, not only harmonising data exchange with European Supervisory Authorities but also increasing security. The ICT Unit evaluated several Business Intelligence techniques for enhanced management reporting, aiding internal business users in taking informed decisions based on fit-for-purpose data. As a result, it is anticipated that a Business Intelligence upgrade will take place at the MFSA in 2017.

Operational and Ancillary Software Systems

Due to changing operational needs and the dynamic web environment, a modernisation programme was initiated to redevelop all the Authority's websites and software systems over the coming years. This impacts both internal applications and publicly accessible websites. This initiative not only provides a professional modern look, but improves website security, and adds numerous features to improve users' experience.

Systems Infrastructure Section

The Systems Infrastructure Section implements and maintains all the technological hardware and software associated with data-centre platforms. The underlying infrastructure is based on best practice and provides the architecture to ensure high availability, continuity and information security. Through these services the MFSA makes use of innovative resources in a secure manner to accommodate business demands while adhering to stakeholders' requirements.

Infrastructure Solutions

New technologies are embraced to strengthen the organisation, ensuring they operate in tandem with the MFSA's current infrastructure.

Milestones for 2016 included comprehensive new systems related to unsolicited email filtering and threat detection, uninterrupted power supplies consolidations, rewiring of electrical power for data-centres supply, and infrastructure security hardening. Furthermore, technical improvements were sustained within the areas of server operating systems, patch management, policy and software provisioning, malware protection, network infrastructure, and structured cabling. Extensive research and analysis was carried out to formulate requirements related to data-centre technologies, and enterprise mobility management, including remote access provisioning with enhanced authentication mechanisms.

Organisation growth and strategy called for the need to procure, maintain and upgrade a number of infrastructure services including Wi-Fi access, server systems, network and telephony, infrastructure applications, backup and recovery, and centralised security management software.

Systems administration and second line support were exerted on a daily basis to ensure seamless operations. These include provisioning of file and email resources, telephony and network services, remote access facilities and other technical administrative tasks. Problem solving skills and improved technical abilities were effectively attained with the aid of academic training and industry certifications.

The well maintained environment brought in a number of business benefits, namely, information security, resources for additional services, centralised management, manufacturer support, adaptation and compatibility with new hardware, better integration with server applications, reduced downtime and enhanced stability.

Information Security

MFSA security methodologies were additionally re-enforced through information security policies, procedures and technologies while adhering to European supervisory stipulations. To enhance integrity of web services and assure validity, certificates with weak signature algorithms were replaced with the latest cryptographic algorithms. To improve communication with ESCB entities, a number of projects related to security and network infrastructure were accomplished. Action was initiated to ensure authenticity and confidentiality between the Authority and ESCB entities. ESCB network services were extended at the disaster recovery site to ensure service continuity. And a security project was initialised to mitigate zero-day threats, impede cyber-attacks and prevent malware attacks.

Support Services and Operations

The Support Services and Operations Section provides helpdesk support and procurement, resource provisioning, planning of major projects, and recovery services. Methodical processes and a well devised plan resulted in uninterrupted support, desired service level, facilities distribution and successful project coordination.

The improvement of user experience and facilities was carried out following the deployment of modern ICT equipment throughout the organisation. The majority of workstations and related equipment have been replaced. This involved a public call to procure more energy-efficient workstations.

There has been an extensive effort to identify inadequate systems. These varied from internal to external systems, both in-house developed and off-the-shelf, including systems used in conjunction with European bodies. Improvements are ongoing.

Most of the crucial services offered by the Authority are covered by service level agreements with local and international suppliers. Over the past year, these have been monitored, reviewed and adequately aligned to the organisation's requirements.

Research and development, together with a number of proof of concepts, were carried out in order to procure better tools, providing staff with better resources, and resulting in a more efficient and effective workforce. For instance, a comprehensive IT Process Management System, with a workflow solution for other Operational Units, was implemented within the Authority.

Proper systems upkeep calls for continuous maintenance work, including preventive maintenance on computers and related ICT equipment. This covers updates to operating systems, security, office applications and tools, both at the main site and the off-site business continuity offices. IT business continuity procedures were kept updated in case of a major incident.

In addition to constant support to staff through the helpdesk, inductions and training was given to staff members, including new service provisioning. ICT Unit support staff have further developed their knowledge by attending specific courses to enhance their job knowledge. In recent years, the response to call time resolution has extensively improved. Work allocation and distribution was amended using proper methodologies. Inter-team collaboration has been enhanced and projects have been aligned efficiently. Internal procedures have also been streamlined. Support personnel task specialisation has been enhanced, providing a better first line of support. This developed more through the year with better exposure to specialised systems. Staff within the Authority experienced a more focused intervention by ICT Unit support personnel. The time period for new service provision has also been shortened.

The ICT Unit has been involved in other areas such as the business process re-engineering exercise and in assisting the regulatory investigative teams.

With a view to provide a better service to the Authority, ever increasing requirements and rapid organisational growth, more adequate project management methodologies have been applied and resources are being handled better. Procedures to strengthen the support workforce have also been initiated.

COMMUNICATIONS UNIT

The Communications Unit (CU) is the main link between the Authority and its stakeholders, ranging from the industry to the general public. The CU communicates the latest legislative and regulatory developments, providing updates though various channels on a continuous basis. It organises regular events to keep the industry abreast and in close contact with officials from the Authority.

Consumer education has been added to the CU's remit and initiatives related to this important subject matter will be followed up in 2017.

The CU handles relations with the local and international media, produces and distributes a number of regular and special publications and works with external bodies relevant to the Authority's statutory duties.

In 2016, the CU continued to provide immediate and real-time updates to the Authority's website which remains the central depository for information required by license holders (existing and prospective), researchers, journalists and other service providers. It includes updated legislation, regulation, supervisory procedures, guidance notes, alerts and warnings.

The website's audience and usage numbers continue to surge. In 2016, ther were 163,850 unique visitors who made 550,940 visits to the www.mfsa.com.mt portal, a 9.5 per cent increase over the previous year. Users from more than 205 different countries visited the website, with more than 1.6 million page views. About 25% of these visits came from major international jurisdictions such as the United Kingdom, Russia, the United States of America, Germany, Italy and Switzerland. These numbers reflect the wide-reaching nature of Malta's financial services jurisdiction, confirming interest from top financial centres around the world as well as a growing number of emerging centres.

The CU replied to more than 1,200 queries, with nearly 1,000 coming through the web portal.

The Authority continued to strengthen its presence on social media, particularly Twitter and LinkedIn, with a substantial increase in followers. These tools serve as an important asset of communication with the industry as followers include professionals in the sector. Social media is used to disseminate information, provide updates on conferences, seminars and events, and advertise vacancies at the Authority.

Conferences, Seminars, Events

The MFSA continued to support a number of conferences, seminars and other events held during the year under review.

In 2016, Malta has made its mark by hosting the Federation of European Risk Management Associations' (FERMA) risk management seminar. The seminar was opened by Malta's Prime Minister, Dr Joseph Muscat, with the Minister for Finance, Professor Edward Scicluna, participating.

Prime Minister Dr Joseph Muscat addressing FERMA 2016

The Authority, in collaboration with the Malta Forum for Internal Auditors (MFIA) organised a training session in July on the Market Abuse Directive II and the Market Abuse Regulation (MAR). The main focus was the new requirements being brought about by MAR and relevant technical standards, particularly the requirements on Market Sounding, Persons Discharging Managerial Responsibilities, Insider Lists and Suspicious Transactions and Order Reports. The implementation of Market Abuse Directive II, with respect to the criminal aspects of market abuse, was also discussed.
Another high-profile event was the Opalesque 2016 Malta Roundtable, which discussed the characteristics and benefits of Notified AIFs and listed those categories of AIFs which are excluded and cannot be Notified AIFs. The Roundtable was followed by a detailed publication covering major interventions during this event.

The MFSA co-sponsored with the CBM, the ICC-FIB International Crime Forum, which was held in May. It also supported the industry by sponsoring an exhibition booth for use by the Malta Insurance Managers Association (MIMA) during the European Captive Forum, held in Luxemburg in November.

The MFSA supported and hosted an event organised by the Institute of Directors, Malta in conjunction with the Malta Institute of Management (MIM) on "What future is there for Malta, Britain and the EU after Brexit?"

The CU handled the logistical aspect of a number of important visits during the year. These included those of Mr Steven Maijoor, Chairman of ESMA, Dr Elke König, Chair of the SRB, the Lord Mayor of London and delegates from the British Bankers Association (BBA), representatives from the Guernsey Financial Services Commission as well as officials from the Authorisation Division of the European Central Bank.

Although the CU regularly updates the industry through circulars and newsletter articles and social media, specific sessions are organised for emphasis on developments in legislation and regulation. In 2016, practical industry updates were organised by the MFSA, in collaboration with Finance Malta on issues such as UCITS V and Notified AIFs.

Over and above, the CU provided financial, administrative and/or logistical support for various events organised by financial services stakeholders such as the IFS, the IFSP and the MIN.

Print and digital media

In 2016, the MFSA had a strong presence in international media, in both generic financial publications as well as specialised publications.

These included a regular presence in the leading financial journal Captive Review, and its sister website, focusing on issues such as Solvency II and Securitisation Cell Companies as well as a Special Report on Alternative Investment Fund Services 2016.

The MFSA featured in international financial journal Mondo Alternative, which provided in-depth reportage of the investment services sector in Malta, in the GFM Special Report: 2016 Guide to setting up an Alternative Investment Fund in Europe (Global Fund Media), Professional Wealth Management (a Financial Times publication), and on Commercial Risk Europe.

Direct contact was maintained with the media through the publication of Media Releases and other Notices as well as through the provision of replies to a variety of questions from local journalists and the foreign press.

The CU also oversees the publication of the MFSA Annual Report, the monthly Newsletter, which has more than 5,000 subscribers, and notices and adverts in the media.

In 2016, through the CU, the Authority issued 107 Notices, 78 Circulars, 13 local Warnings and more than 350 foreign Warnings. In its effort to include industry at every stage of the regulatory process, the MFSA issued 21 Consultation Papers and Feedback Statements. Once these documents were published on the MFSA Website, the relevant documents were sent to MFSA Licence Holders, subscribers and local and international connections.

The CU also manages the Intranet system for updating staff with regulatory and administrative developments and issues directly relevant to them. The intranet supports the professional development of MFSA staff with the inclusion of a number of journals and relevant publications to assist in various areas of their work, including policy and regulatory development and emerging issues in the industry.

During 2016, efforts continues to enhance the MFSA's Staff Library housed within the CU. A very encouraging 60% of all MFSA staff availed themselves of the opportunity to consult and/or borrow specialist pubblications and books on financial services regulatory practices and related topics.

The CU also represents the Authority at a number of meetings organised by the ECB and EIOPA, supports the administration of the Authority's Corporate Social Responsibility (CSR) and provides secretarial services to the Board of the MITC.

Consumer education and support

Following the enactment of the Arbiter for Financial Services Act (Cap 555), In 2016, the MFSA consumer handling remit was reviewed. The Consumer Complaints Unit is being phased out as its responsibilities pass to the Arbiter, while the CU will take over Consumer Education and Support.

During 2016, the CU has further developed the Authority's web portal "MyMoneyBox", which provides comprehensive and impartial information to consumers about an extensive range of financial products and services. The portal contains a comparative database of bank and brokerage charges, a comparative database of motor insurance policy features and a section answering frequently asked questions.

In parallel, the CU handles the Authority's MyMoneybox Facebook and Twitter pages, targeted towards the general consumer, providing daily tips and advice, warning the public about fraudulent financial activities and answering queries.

The CU publishes a monthly electronic newsletter which is sent to over 1,500 subscribers of the portal and delivers weekly presentations and talks to students from a number of Maltese schools. The presentations cover various subjects including debit and credit cards, savings accounts, insurance, shares and bonds and financial scams.

The CU has continued to provide the general public with information about financial services, mostly relating to banking, insurance and investment. It handles queries by email and telephone and from consumers who visit the Authority's premises. During the second half of the year the Unit handled more than 500 queries. It also provided feedback on issues raised to the regulatory units within the MFSA.

APPENDICES

APPENDIX I – ACTS, LEGAL NOTICES AND GOVERNMENT NOTICES ISSUED IN 2015

Acts published in 2016

- Various Financial Services Laws (Amendment) Act Published on 22.4.16 as Act XIX of 2016
- Prevention of Financial Markets Abuse (Amendment) Act Published on 2.12.16 as Act LIII of 2016

Legal Notices published in 2016

- Investment Services Act (Fees)(Amendment No 3) Regulations
  published 01.11.16 as LN 371 of 2016 (Published as Amendment No.2 instead of Amendment No. 3)
- Investment Services Act (Fees) (Amendment) (No. 2) Regulations
  published on 26.7.16 as LN 264 of 2016
- Investment Services Act (Fees)(Amendment) Regulations
  published on 10.6.16 as LN 217 of 2016
- Credit Institutions and Financial Institutions Act (Payment Accounts) Regulations
  published 7.12.16 as LN 411 of 2016
- Reporting of Infringements Regulations
  published 2.12.16 as LN 405 of 2016
- Investment Services Act (Control of Assets) (Amendment No. 2) Regulations
  published on 10.6.16 as LN 215 of 2016
- Investment Services Act (UCITS Administrative Penalties, Measures and Investigatory Powers)(Amendment) Regulations
  published on 10.6.2016 as LN 222 of 2016
- Investment Services Act (Marketing of Alternative Investment Funds) (Amendment) Regulations
  published 10.6.16 as LN 218 of 2016
- Investment Services Act (Exemption)(Amendment) Regulations
  published on 10.6.16 as LN 216 of 2016
- Investment Services Act (List of Notified AIFs) Regulations
  published on 10.6.16 as LN 219 of 2016
- Credit Institutions (Reorganisation and Winding Up) (Amendment) Regulations
  published on 6.5.16 as LN 149 of 2016
- Investment Firms (Reorganisation and Winding-up) (Amendment) Regulations
  published on 6.5.16 as LN 150 of 2016
- Investment Services Act (Control of Assets) (Amendment) Regulations
  published on 5.4.16 as LN 113 of 2016
- Investment Services Act (UCITS Administrative Penalties, Measures and Investigatory Powers) Regulations
  published on 5.4.16 as LN 115 of 2016
- Investment Services Act (UCITS Management Company Passport) (Amendment) Regulations
  published on 5.4.16 as LN 116 of 2016
  Investment Services Act (Custodians of Collective Investment Schemes) Regulations
  published on 5.4.16 as LN 114 of 2016
- Investment Services Act (European Long-Term Investment Funds) Regulations
  published on 4.3.16 as LN 70 of 2016
- Declaration of Bank Holidays Order
  published on 28.10.16 as LN 348 of 2016

APPENDIX II: RULES: ISSUED AND REVISED IN 2016

Banking Rules

- BR/09/2016 Measures Addressing Credit Risks Arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions Authorised under the Banking Act 1994
- BR/17/2016 "Management Expenses Contribution" under the Depositor Compensation Scheme Regulations (SI.371.09)
- BR/18/2016 'Risk-Based Method' and the 'Compensation Contribution Method' under the Depositor Compensation Scheme Regulations
- BR/19/2016 Payment Commitment under the Depositor Compensation Scheme Regulations (SI.371.09)
- BR/16/2014 Funding Plans for Credit Institutions Authorised Under the Banking Act 1994
- BR/12/2014 The Supervisory Review Process Of Credit Institutions Authorised Under The Banking Act 1994

Insurance Rules

- Chapter 5: Valuation of assets and liabilities, technical provisions, own funds, Solvency Capital Requirement, Minimum Capital Requirement and investment rules
- Chapter 6: System of Governance
- Chapter 8: Financial Statements and Supervisory Reporting Requirements
- Chapter 9: Freedom of Establishment and Freedom to provide Services by a European Insurance Undertaking and a European Reinsurance Undertaking
- Chapter 10: Freedom of Establishment and Freedom to provide Services by a Maltese Insurance Undertaking and a Maltese Reinsurance Undertaking
- Chapter 12: Conduct of Business Rules

Insurance intermediaries Rules

- Insurance Intermediaries Rule 1 of 2007
- Insurance Intermediaries Rule 2 of 2007
- Insurance Intermediaries Rule 3 of 2007
- Insurance Intermediaries Rule 5 of 2008
- Insurance Intermediaries Rule 6 of 2007
- Insurance Intermediaries Rule 7 of 2007
- Insurance Intermediaries Rule 8 of 2007
- Insurance Intermediaries Rule 9 of 2007
- Insurance Intermediaries Rule 10 of 2007
- Insurance Intermediaries Rule 12 of 2007
- Insurance Intermediaries Rule 13 of 2007
- Insurance Intermediaries Rule 16 of 2007
- Insurance Intermediaries Rule 17 of 2007
- Insurance Intermediaries Rule 18 of 2007
- Insurance Intermediaries Rule 19 of 2007
- Insurance Intermediaries Rule 20 of 2007
- Insurance Intermediaries Rule 22 of 2007

- Insurance Intermediaries Rule 23 of 2008
- Insurance Intermediaries Rule 24 of 2009
- Insurance Intermediaries Rule 25 of 2014

Investment Services Rules

- Investment Services Rules for Retail Collective Investment Schemes
- Investment Services Rules for Professional Investor Funds
- Investment Services Rules for Alternative Investment Funds
- Investment Services Rules for Investment Services Providers

Trusts and Trustees

- Rules for Trustee of Family Trusts

APPENDIX III - CIRCULARS ISSUED IN 2016

Date	Circular
Anti-Money Laundering	
26/02/2016	FATF identifies jurisdictions with strategic deficiencies
06/07/2016	FATF identifies jurisdictions with strategic deficiencies
Banking Supervision	
14/01/2016	Institutions offering account servicing, payment initiation and account information services as defined in the PSD2
29/01/2016	Banking Rule BR/16
06/04/2016	AMM reporting and revised Supervisory Reporting Templates
04/07/2016	Applicants for financial services authorisations
07/07/2016	EBA Q&A Updates
08/08/2016	EU Consultation document on Review of Macro-Prudential Policy Framework
09/08/2016	Annex 2B of Banking Rule BR/12
02/09/2016	Revised FINREP templates and revised templates for the Delegated Act on LCR
12/09/2016	EBA Consultation Paper on draft Regulatory Technical Standards specifying the requirements on authentication and communication under PSD2
30/09/2016	Proposed amendments to Banking Rule 09 under the Banking Act 1994
13/10/2016	EBA Q&A Updates (2)
20/10/2016	Consultation process on the proposed amendments to Banking Rule 09 under the Banking Act 1994 - Extension of Consultation Period
27/12/2016	Statement of Decision on the Methodology for the Identification of other Systemically Important Institutions and the related capital buffer calibration
Insurance and Pensions Supervision	
22/01/2016	Requirement of a European insurance undertaking providing services in Malta to appoint a fiscal representative
21/03/2016	Insurance Intermediaries Rules
18/04/2016	Amendments to Insurance Intermediaries Rule 1 of 2007
26/04/2016	Reinsurance Special Purpose Vehicles Regulations, 2016
08/08/2016	Review of Macro-Prudential Policy Framework
14/10/2016	Reinsurance/Retrocession Reporting
26/10/2016	Schemes which qualify as Qualifying Recognised Overseas Pension Schemes
02/11/2016	the introduction of new audit committee requirements
Solvency II	
04/01/2016	Fitness and Properness Assessment of persons performing or overseeing Key Functions under the Solvency II Regime
20/01/2016	Update on the status of the EIOPA Tool for Undertakings (T4U)
05/02/2016	Tool for Undertakings (T4U) Status Update
07/03/2016	qualitative reporting requirements concerning groups under Solvency II
01/04/2016	Solvency II
01/04/2016	Solvency II Minimum Capital Requirement Reporting

12/04/2016	Commission Delegated Regulation (EU) 2015/35 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)
06/07/2016	MFSA Web Portal ("LH Portal")
11/07/2016	Solvency II
10/10/2016	Publication of a revised version of the Annual National Specific Templates
20/10/2016	Solvency II
03/11/2016	Solvency II Reporting and Public Disclosure - Loss distribution risk profile (S.21.01.01) and Non-life distribution of underwriting risks — by sum insured (S.21.03.01)
14/11/2016	Solvency II
Retirement Scheme Administrators	
21/01/2016	Retirement Scheme Administrators licenced under the Retirement Pensions Act (Cap. 514) with effect from 1st January 2016

Securities and Markets Supervision Unit

CRD IV	
05/01/2016	Disclosure Requirements
EMIR	
25/07/2016	European Markets Infrastructure Regulation No 648/2012 ('EMIR/ the Regulation'): Clearing Obligation
Investment Services	
05/01/2016	Investment Services Licence Holders conducting Licensable activities in Foreign Jurisdictions
08/01/2016	Documentation Timetable
01/02/2016	Draft Guidelines on the Market Abuse Regulation
13/04/2016	Investment Firms and/or Applicants for an Investment Services Licence offering or intending to offer Financial Contracts for Difference (CFDs) and other speculative products
15/04/2016	Changes to the Investment Services Rules following the transposition of the UCITS V Directive
26/04/2016	The European Long-Term Investment Funds Regulation
02/05/2016	Investment Firms authorised to provide investment advice
20/05/2016	Changes to the Investment Services Rules
26/05/2016	Consolidation of the Maltese Fund Frameworks
05/07/2016	Applicants for financial services authorisations
08/08/2016	EU Consultation document on Review of Macro-Prudential Policy Framework
18/08/2016	MIFID firms and UCITS/AIFMD firms conducting MIFID services and activities
19/08/2016	Off-site Supervision – Correspondence with the Funds Supervision Team
11/11/2016	Thematic Review on Compliance with the Remuneration provisions in terms of the AIFM Directive
Collective Investment Schemes	
15/04/2016	Changes to the Investment Services Rules following the transposition of the UCITS V Directive
26/05/2016	Consolidation of the Maltese Fund Frameworks

10/06/2016	The payment of notification fees in support of applications for cross-border marketing of units of European venture capital funds and/or European social entrepreneurship funds in terms of the EuVECA/EuSEF Regulations
19/08/2016	Off-site Supervision – Correspondence with the Funds Supervision Team
11/11/2016	Thematic Review on Compliance with the Remuneration provisions in terms of the AIFM Directive
27/12/2016	Guide to Submitting a Complete Application for a Collective Investment Scheme Licence
Financial Markets	
14/01/2016	Transparency Directive – Findings following examination of Annual Reports of local listed entities
04/04/2016	ESMA Report on Enforcement and Regulatory Activities of Accounting Enforcers in 2015
11/05/2016	Implementation of the Central Securities Depositaries Regulation (EU) No 909/2014
01/07/2016	coming into force of the Alternative Performance Measures Guidelines
20/07/2016	IFRS 15: Revenue from Contracts with Customers - Issues for Consideration
29/07/2016	ESMA publishes the 19th extract of Enforcement Decisions
09/08/2016	Legal Entity Identifier ('LEI')
18/10/2016	Protocol between ESMA and the IFRS Foundation
28/10/2016	ESMA Statement - Common Enforcement Priorities for the 2016 financial statements
MiFID and MiFIR	
13/01/2016	Consultation Paper published by the ESMA on guidelines regarding the Markets in Financial Instruments Regulation (MiFIR) under which ESMA has to develop the implementing details
15/01/2016	Changes being proposed to the Financial Markets Act (Cap 345) as a result of the transposition of MiFID II and the implementation of MiFIR
03/05/2016	Changes being proposed to the Investment Services Act (ISA) as a result of the transposition of MiFID II and the implementation of MiFIR
04/08/2016	Best Execution Visits carried out in 2016
22/12/2016	Markets in Financial Instruments Directive ('MiFID II') and Markets in Financial Instruments Regulations ('MiFIR')
UCITS	
05/01/2016	Delegated Regulation on Obligations of Depositaries required by UCITS V
15/04/2016	Changes to the Investment Services Rules following the transposition of the UCITS V Directive
18/08/2016	MIFID firms and UCITS/AIFMD firms conducting MIFID services and activities
AIFMD	
15/04/2016	Changes to the Investment Services Rules following the transposition of the UCITS V Directive
18/08/2016	MIFID firms and UCITS/AIFMD firms conducting MIFID services and activities

Conduct of Business

05/05/2016	Conduct of Business Rulebook
25/05/2016	Conduct of Business Rulebook – Phase 2

	Investment Firms and/or Applicants for an Investment Services Licence offering or intending to offer Financial Contracts for Difference (CFDs) and other speculative products
14/06/2016	Investment Firms and Credit Institutions when selling bail-in securities
27/06/2016	European Commission Technical Workshop on the implementation of the PRIIPs framework
08/07/2016	EIOPA consults on policy proposals regarding the implementation of the Insurance Distribution Directive
18/07/2016	Implementation of the PRIIPs framework
29/07/2016	Sale of speculative products [Contracts for Difference; Binary options; and other speculative products] and the associated risks
29/07/2016	Investment Firms and/or Applicants for an Investment Services Licence offering or intending to offer Financial Contracts for Difference (CFDs) and other speculative products
04/08/2016	EIOPA consults on the presentation format of the Insurance Product Information Document
06/09/2016	Update to the Industry on recent developments in relation to the Insurance Distribution Directive
06/09/2016	Update to the Industry on recent developments in relation to upcoming legislation
22/09/2016	Update to the Industry on recent developments in relation to PRIIPs
13/10/2016	Investment Firms and/or Applicants for an Investment Services Licence offering or intending to offer Financial Contracts for Difference (CFDs) and other speculative products
27/10/2016	Consultation on the Draft guidelines on MiFID II product governance requirements
02/12/2016	Packaged Retail and Insurance-Based Investment Products ("PRIIPs") Regulation Quick Fix
20/12/2016	Category 2 and Category 3 Investment Firms in relation to updates to the COREP return

Trust and Fiduciaries

29/04/2016	Rules for Trustees of Family Trusts

Company Service Providers

05/07/2016	Applicants for financial services authorisations

Prevention of Market Abuse

15/07/2016	Update on MAR/MAD II in relation to MiFID II/MiFIR requirements
01/08/2016	Update on MAR Technical Standards and MAR Q&A
01/09/2016	Update on the Insider Lists
05/10/2016	Industry update on ESMA Guidelines on information relating to commodity derivatives markets or related spot markets for the purpose of the definition of inside information on commodity derivatives
29/12/2016	Market Abuse Regulation – Q & A Document

APPENDIX IV – CONSULTATION PAPERS ISSUED IN 2016

Date issued	*Consultation*
09/03/2016	Amendments to the Insurance Rules issued under the Insurance Business Act
15/03/2016	Implementation of the EU Payment Accounts Directive
01/04/2016	Amendments to Insurance Rules issued under the Insurance Business Act
11/04/2016	Conduct of Business Rulebook Phase 2
31/05/2016	Insurance Rules implementing audit committee requirements
09/06/2016	Implementation of Audit Committee Requirements with respect to Credit Institutions
28/06/2016	Amendments to the Listing Rules implementing Audit Committee Requirements
26/08/2016	Amendments to the Insurance Rules issued under the Insurance Business Act
09/09/2016	Amendments to the Insurance Rules issued under the Insurance Business Act
16/09/2016	Implementation of three new banking rules issued under the Depositor Compensation Scheme Regulations, S.L. 371.09.
30/09/2016	Amendments to Banking Rule 9 'Measures addressing Credit Risks arising from the assessment of the quality of Asset Portfolios of Credit Institutions authorised under the Banking Act 1994'
17/10/2016	Proposed Policy as applicable to Online Distributing or Intending to Distribute Contracts for Difference (CFDs) and/or Rolling Spot Forex Contracts under the MiFID Regime
03/11/2016	Investment-based Crowdfunding
04/11/2016	Amendments to the Investor Compensation Scheme Regulations issued under the Investment Services Act
23/11/2016	Revised Rulebooks Applicable to Collective Investment Schemes
27/12/2016	Revised Rulebooks applicable to Collective Investment Schemes
30/12/2016	Proposed Rules for Trustees and other Fiduciaries

APPENDIX V - ISSUED AND SURRENDERED LICENCES IN 2015

LICENSES ISSUED

BANKING
New licenses

FINANCIAL INSTITUTIONS

- EPG Financial Services Limited to provide payment services.
- Emerge Global Limited to provide payment services and issuing of electronic money.
- Nobel Financial Limited to provide payment services and issuing of electronic money.

Extension of licenses

FINANCIAL INSTITUTIONS

- Fexserv Financial Services Limited to carry out lending activities, payment services as defined in the second schedule, issuing and administering other means of payment and trading for own account or for the account of customers in foreign exchange.
- Finco Treasury Management Limited to provide money remittance services.
- Swish Payments Limited to provide money remittance services.

INSURANCE
New licenses

INSURANCE UNDERTAKINGS

- License issued to Hillwood Limited to carry on business of insurance in 16 classes of the general business.
- License issued to Fresenius Medical Care Global Insurance Limited to carry on business of captive reinsurance in two classes of the general business.
- License issued to R&Q Insurance (Europe) Limited to carry on business of insurance and reinsurance in all classes of the general business.

REINSURANCE SPECIAL PURPOSE VEHICLES

- License issued to Exchange Re SCC Limited to carry on business as a Reinsurance Special Purpose Vehicle.

PROTECTED CELLS

- Approval of Cell 1 as a protected cell of DARAG Malta Insurance and Reinsurance PCC Limited to carry on business of reinsurance in twelve classes of the general business.
- Approval of Cell A20 as a protected cell of White Rock Insurance (Europe) PCC Limited to write business of insurance and reinsurance in one class of the general business.
- Approval of Freedom Health Cell as a protected cell of Advent Insurance PCC Limited to write business of insurance in two classes of the general business.
- Approval of Gemini Cell as a protected cell of Atlas Insurance PCC Limited to write business of insurance in three classes of the general business.

INSURANCE BROKERS

- Templar EIS Limited was enrolled in the Brokers List.
- Mulberry Insurance Brokers Limited was enrolled in the Brokers List.
- Tempus Global Group Insurance Brokers Limited was enrolled in the Brokers List.

INSURANCE AGENTS

- guard.me International Insurance Agency (Malta) Limited was enrolled in the Agents List.

UNDERWRITING AGREEMENT

- FirstUnited Insurance Brokers Ltd was granted the registration of an underwriting agreement with Mapfre Middlesea plc in nine classes of the general business.

Extension of Licenses, Revisions, Mergers and Conversions

INSURANCE UNDERTAKINGS

- Trinity Lane Insurance Company Limited to carry on business of insurance in one additional class of the general business.
- Cafina Assurances Limited to carry on business of insurance in one additional class of the general business.
- ArgoGlobal SE to carry on business of insurance in two additional classes of the general business.
- Liberty Global Insurance Company Limited to carry of business of reinsurance in two classes of the long term business and in one additional class of the general business.
- Multi Risk Indemnity Company Limited to carry on business of insurance and reinsurance in two additional classes of the general business and business of reinsurance in two classes of long term businesses.
- Multi Risk Benefits Limited, a company authorised to carry on business of insurance in terms of the Insurance Business Act, merged into Multi Risk Indemnity Company Limited, a company which is also authorised to carry on business of insurance and reinsurance in terms of the Act.

PROTECTED CELLS

- Approval of Cell A2 as a protected cell of White Rock Insurance (Europe) PCC Limited to write business of insurance in one additional class of the general business.
- Approval of Real Estate Insurance Cell as a protected cell of HighDome PCC Limited to write business of insurance in one additional class of the general business.

INSURANCE INTERMEDIARIES

- IIM Limited merged with USA Risk Group (Malta) Limited.

SECURITIES

Investment Services
New licenses

CATEGORY 1B

- Aramis Capital (Europe) Limited to provide investment advice for Professional Clients (including Collective Investment Schemes) and Eligible Counterparties.

- Standard Advisory Services Limited to provide investment advice for Professional Clients (excluding Collective Investment Schemes) and Eligible Counterparties.

CATEGORY 2

- Horus Malta Limited to provide the services of execution of orders on behalf of other persons, reception and transmission of orders, management of investments, investment advice, as well as placing of financial Instruments without a firm commitment basis to Retail Clients and Professional Clients (excluding Collective Investment Schemes).
- Invest4Growth Asset Management Limited to provide the services of investment management for Professional Clients (excluding Collective Investment Schemes) and investment advice for Professional Clients (including Collective Investment Schemes).
- Altruid Systems Limited to provide the services of investment management for Professional Clients (including Collective Investment Schemes).
- Rootstock Investment Management (Malta) Limited to provide the services of investment management for Professional Clients (excluding Collective Investment Schemes) and Eligible Counterparties.

AIFMs

- RMS FinGroup (Malta) Limited to provide investment advice and management of investments for Professional Clients (including Collective Investment Schemes).
- Private Value Asset Management Limited to provide investment advice and management of investments for Professional Clients (including Collective Investment Schemes).

AIFMs AND UCITS MANAGEMENT COMPANIES

- Flexagon Capital Management Limited to provide management of investments for Professional Clients (including Collective Investment Schemes).

DE MINIMIS AIFM

- Markham Rae (Malta) Management Company Limited to provide management of investments for Collective Investment Schemes.

CATEGORY 3

- TMS Brokers Europe Limited to provide the services of dealing on own account and execution of orders on behalf of other persons to Retail Clients and Professional Clients (including Collective Investment Schemes), and Eligible Counterparties.

Extension and Revision of Licenses
Extensions

- AQA Capital Limited to include the provision of management services to Retail Clients.
- MZ Investment Services Limited to include the provision of additional investment services, nominee services, investment management and execution of orders.
- Abalone Asset Management Limited to include the provision of management services to Professional Clients.
- Paladin Securities Limited to include the provision of investment services to Retail Clients and Professional Clients (including Collective Investment Schemes).
- Cresco Capital Markets (Malta) Limited to cover all instruments listed in the second schedule.

Revisions

- Revision of Category 2 license issued to Cevian Capital (Malta) Limited to include the provision of execution of orders on behalf of other persons to Professional Clients.
- Revision of Category 2 licence issued to Gamma Capital Markets Limited to include the provision of reception and transmission of orders to Retail and Professional Clients, in relation to units in the Collective Investment Schemes.
- Revision of Category 2 licence issued to Seia Capital Management Limited to include the provision of investment advice, reception and transmission of orders for Professional clients (including Collective Investment Schemes) and management for Professional clients (excluding Collective Investment Schemes).
- Revision of Category 2 licence issued to Temporis Investment Management Limited to include the provision of management of investments to Professional Clients.
- Revision of Category 3 licence issued to Binary Investments (Europe) Limited to include the provision of execution of orders to Retail Clients and Professional Clients (including Collective Investment Schemes).

EUROPEAN VENTURE CAPITAL FUND MANAGER

- Revision of license issued to Abalone Asset Management Limited to reflect its status as a European Venture Capital Fund Manager in terms of EU Regulation No. 345/2013.

AIFM

Revision of licence to act as an Alternative Investment Fund Manager issued to

- FMG (Malta) Limited.
- GWM Asset Management (Malta) Limited.
- Terra Partners Asset Management Limited.

RECOGNISED FUND ADMINISTRATORS

- Certificate issued to Kane LPI Solutions (Malta) Limited.
- Certificate issued to FundBPO (Malta) Limited.

Collective Investment Schemes

New licenses

PROFESSIONAL INVESTOR FUNDS TARGETING QUALIFYING INVESTORS

Collective investment schemes licenses issued to

- Active Return Capital SICAV plc in respect of one sub-fund.
- Alpha Quest Funds SICAV plc in respect of two sub-funds.
- Amergeris Wealth Management SICAV plc in respect of one sub-fund.
- Audentia Capital SICAV plc in respect of twelve sub-funds.
- Audentia Capital SICAV II plc in respect of two sub-funds.
- AUM Total Return Umbrella Fund SICAV plc in respect of one sub-fund.
- DALMA Capital SICAV plc in respect of one sub-fund.
- EOS SICAV plc in respect of one sub-fund.
- Heka Funds SICAV plc in respect of one sub-fund.
- Heracles Investment Fund in respect of one sub-fund.

- Infinity Capital SICAV plc in respect of two sub-funds.
- J8 Umbrella Funds SICAV plc in respect of one sub-fund.
- Lagonda Fund SICAV plc in respect of one sub-fund.
- LL Global Fund SICAV plc in respect of one sub-fund.
- Lucendro SICAV plc in respect of one sub-fund.
- Magiston Funds SICAV plc in respect of three sub-fund.
- Metatron Capital SICAV plc in respect of one sub-fund.
- Mezzanine Capital Funds SICAV plc in respect of one sub-fund.
- Nina Fund SICAV plc in respect of one sub-fund.
- Northern Cross SICAV plc in respect of three sub-funds.
- PerSYSTEMCY SICAV plc in respect of one sub-fund.
- Paragon SICAV plc in respect of one sub-fund.
- Pilatus SICAV plc in respect of five sub-funds.
- PMG Partners SICAV plc in respect of one sub-fund.
- PMG Special Funds SICAV plc in respect of one sub-fund.
- Redhedge SICAV plc in respect of one sub-fund.
- Replica SICAV plc.
- SiliconIsles SICAV plc in respect of one sub-fund.
- Spinoza Capital SICAV plc in respect of one sub-fund.
- Tarrana Fund SICAV plc in respect to two sub-funds.
- Top Selection Fund SICAV plc in respect of two sub-funds.
- Unison Capital SICAV plc in respect of one sub-fund.
- Woodman Funds SICAV plc in respect of two sub-funds.

PROFESSIONAL INVESTOR FUNDS TARGETING EXPERIENCED INVESTORS

Collective investment scheme license issued to

- HFH SICAV plc in respect of one sub-fund.

PROFESSIONAL INVESTOR FUNDS TARGETING EXTRAORDINARY INVESTORS

Collective investment scheme licenses issued to

- AUM Global Platform SICAV plc in respect of two sub-funds.
- Mezzanine Capital Funds SICAV plc in respect of two sub-funds.
- Nexum SICAV plc in respect of one sub-fund.
- Pélée Umbrella Investment Fund SICAV plc in respect of one sub-fund.
- Tuffieh Funds SICAV plc in respect of one sub-fund.

INCORPORATED CELLS

Collective investment scheme licenses issued to

- AJD Fund IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited to carry out the activities of Professional Investor Fund targeting Qualifying Investors.
- Altor Capital IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited to carry out the activities of Professional Investor Fund targeting Qualifying Investors.

- Lupum Global Macro IC SICAV pls as an incorporated cell of AKJ Simplon RICC Limited to carry out the activities of Professional Investor Fund targeting Qualifying Investors.
- Titan Opportunities Fund IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited to carry out the activities of Professional Investor Fund targeting Qualifying Investors.

ALTERNATIVE INVESTMENT FUNDS TARGETING QUALIFYING INVESTORS

Collective investment scheme licenses issued to

- Cerro Torre SICAV plc in respect of one sub-fund.
- Global Garden SICAV plc in respect of one sub-fund.
- Lane Bridge SICAV plc in respect of two sub-funds.
- Private Value Capital Opportunities SICAV plc in respect of three sub-funds.

ALTERNATIVE INVESTMENT FUNDS TARGETING EXPERIENCED INVESTORS

Collective investment scheme license issued to

- Comino II Umbrella Fund SICAV plc in respect of one sub-fund.

ALTERNATIVE INVESTMENT FUNDS TARGETING PROFESSIONAL INVESTORS

Collective investment scheme licenses issued to

- Comino III Umbrella Fund SICAV plc in respect of one sub-fund.
- Bastion Wealth Strategies SICAV plc in respect of two sub-funds.
- Italo SICAV plc in respect of one sub-fund.
- Sandberg Investment Fund SICAV plc in respect of one sub-fund.
- The ARP Funds (SICAV) plc in respect of one sub-fund.
- The Blue Income Fund SICAV plc.

ALTERNATIVE INVESTMENT FUNDS TARGETING PROFESSIONAL AND QUALIFYING INVESTORS

Collective investment scheme licenses issued to

- Comino III Umbrella Fund SICAV plc in respect of one sub-fund.
- Lane Bridge SICAV plc in respect of one sub-fund.

ALTERNATIVE INVESTMENT FUNDS TARGETING RETAIL INVESTORS

Collective investment scheme licenses issued to

- Bastion Wealth Strategies SICAV plc in respect of one sub-fund.
- HSBC Malta Funds SICAV plc in respect of two sub-funds.

NOTIFIED ALTERNATIVE INVESTMENT FUNDS TARGETING QUALIFYING INVESTORS

- Ventura SICAV plc in respect of one sub-fund.

NOTIFIED ALTERNATIVE INVESTMENT FUNDS TARGETING QUALIFYING AND PROFESSIONAL INVESTORS

- Global Series SICAV plc in respect of one sub-fund.

UCITS

Collective investment scheme licenses issued to

- Aag Evolution SICAV plc in respect of one sub-fund.
- Alpine Fund SICAV plc in respect of one sub-fund.
- AQA UCITS Funds SICAV plc in respect of six sub-funds.
- ARIA SICAV plc in respect of one sub-fund.
- Aurora SICAV plc in respect of one sub-fund.
- BOV Investment Funds in respect of three sub-funds.
- Flexagon UCITS Funds SICAV plc in respect of one sub-fund.
- Highland SICAV plc in respect of one sub-fund.
- I4G UCITS Fund SICAV plc in respect of one sub-fund.
- Investedge SICAV plc in respect of one sub-fund.
- Kite SICAV plc in respect of one sub-fund.
- Lane Bridge UCITS SICAV plc in respect of one sub-fund.
- Ledbury Investment SICAV plc in respect of one sub-fund.
- Libero International SICAV plc in respect of one sub-fund.
- Nobelium Fund SICAV plc in respect of two sub-funds.

COLLECTIVE INVESTMENT SCHEMES – CONVERSION OF LICENSES

- Streaming Technology Fund, a sub-fund of AUM Global Platform SICAV plc, was revised from Professional Investor Fund targeting Extraordinary Investors to Professional Investor Fund targeting Qualifying Investors.
- Pretium Global Equity Fund, a sub-fund of Bastion Wealth Strategies SICAV plc, was revised from Alternative Investment Fund targeting Professional investors to Alternative Investment Fund targeting Qualifying and Professional Investors.
- Cerro Torre SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.
- Comino Umbrella Fund SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.
- FMG Funds SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.
- Hedge Invest Global Holdings SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.
- Hedge Invest Specialist Selection SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.
- HSBC Malta Funds SICAV plc was converted to Alternative Investment Fund.
- Open Door SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.
- Vltava Fund SICAV plc was converted from Professional Investor Fund to Alternative Investment Fund.

RECOGNISED INCORPORATED CELL COMPANIES

Recognition Certificate issued to

- Water Lane Investment RICC Limited.

TRUSTEES AND FIDUCIARIES

New Licences

Authorisation issued to

- (Gibraltar) Trustees Limited to provide fiduciary services which do not include acting as a trustee.
- Bencustodia Limited to act as private trustee.
- Carmelo Stivala Trustee Limited to act as private trustee.
- AlleyBe Malta Limited to provide trustee and other fiduciary services including acting as administrators of private foundations.
- Acumum Trustees Limited to provide trustee and other fiduciary services including acting as administrators of private foundations.
- Arcem Trust Limited to receive property, and provide trustee or co-trustee services and other fiduciary services including acting as administrators of private foundations.
- Imperium Malta Limited to provide trustee and other fiduciary services including acting as administrators of private foundations.
- Mandaris Trustees (Malta) Limited to provide trustee and other fiduciary services including acting as administrators of private foundations.

PENSIONS

New certificates of registration

RETIREMENT SCHEMES

- Elmo US Retirement Plan.
- STM Malta Contract Plan.
- ITC Occupational Retirement Scheme.
- ITC Personal Retirement Scheme.
- STM Malta (US) Protected Retirement Plan.
- Harbour Retirement Scheme SICAV plc.
- The Bourse(US) Retirement Scheme (Malta) Limited.
- Synergy International Pension Plan.
- Gemstone Retirement Scheme.
- Lifetime Pensions Private Pension Scheme.

RETIREMENT SCHEMES ADMINSTRATORS

- TMF International Pensions Limited.
- JTC Trustees (Malta) Limited.
- CCGM Pension Administrators Limited.

BACK OFFICE ADMINISTATORS (EXEMPTED)

- Optimus Pension Administration Limited.
- Dominion Fiduciary Services Limited.

BACK OFFICE ADMINISTATORS (RECOGNISED)

- SGGG Fexserv Fund Services (Malta).
- STM Malta Trust and Company Management Limited.

INVESTMENT MANAGER (REGISTERED)

- Bastion Wealth Limited.

COMPANY SERVICE PROVIDERS

Certificate issued to:

- ACT Advisory Services Limited.
- Active Services (Malta) Limited.
- AMAGIS Capital Services Limited.
- AMMC – Acumum Corporate Services Limited.
- AON Insurance Managers (Malta) PCC Limited.
- Aon Services (Malta) Limited.
- Arendt Services S.A.
- ARQ Corporate Limited.
- Asteria Management Limited.
- Astra Consulting Malta Limited.
- Bee Insurance Management Limited.
- Blaustein Limited.
- Bosteco Overseas Specialised Services Limited.
- Calamatta Cuschieri Funds Services Limited.
- Capricorn International Limited.
- CCA Interserv Limited.
- Chancery Services Limited.
- Citco (Malta) Limited.
- CMM Management Limited.
- Cordium Malta Limited.
- Corpag Services (Malta) Limited.
- Corpserv Limited.
- Crystal Worldwide Limited.
- DF Consultancy Services Limited.
- DGA Corporate Limited.
- Directa Management Limited.
- Dixcart Management Malta Limited.
- E & S Consultancy Limited.
- E2S Monitoring Limited.
- ECDDP Support Services Limited.
- e-Management Limited.
- Emoore Malta Limited.

- EXCO Services Limited.
- Executive Consultants Limited.
- Family Office Malta Limited.
- Fides Corporate Services Limited.
- Fides Management Limited.
- Gnosis Management Limited.
- Grant Thornton Services Limited.
- Hand Limited.
- HBM Malta Limited.
- Heritage International Fund Services (Malta) Limited.
- IDS Fund Services Malta Limited.
- Integra Private Wealth Limited.
- JMKK Services Limited.
- LexPractis Limited.
- Living Capital Corporate Services Limited.
- Mazars Consulting Limited.
- MCD Malta Services Limited.
- Mediterra MMXII Services Limited.
- NewCo Corporate Director Limited.
- NewCo Corporate Director 2 Limited.
- NewCo Corporate Services Limited.
- NMCS Limited.
- Nouv MT Corporate Limited.
- PiscoPartners Limited.
- Prospera Europe Limited.
- Quantum Corporate Services Limited.
- Res Malta Limited.
- Risk Management Services (Malta) Limited.
- Sarnia Yachts (Malta) Limited.
- SCS Corporate Solutions Limited.
- ST Corporate and Advisory Services Limited.
- STM Malta Corporate Limited.
- STM Malta Management Limited.
- STM Malta Services Limited.
- Tri-Mer Corporate Limited.
- Virtue Resources Limited.
- Zeta Corporate & Management Services Limited.

SECURITISATION VEHICLES

NOTIFIED SECURITISATION VEHICLES

- Acknowledgement issued to Arkadia Securitisation SCC PLC.
- Acknowledgement issued to Arphan SCC PLC.
- Acknowledgement issued to Coprolin SCC PLC.
- Acknowledgement issued to Ecotonian Sports Limited.
- Acknowledgement issued to ETD Malta Limited.
- Acknowledgement issued to ETI Malta Limited.
- Acknowledgement issued to Helix SCC PLC.
- Acknowledgement issued to Malta IFP Finance SCC PLC.
- Acknowledgement issued to Pantheon Securities SCC PLC.
- Acknowledgement issued to PHM Malta SV 28 Limited
- Acknowledgement issued to PHM Malta SV 29 Limited.
- Acknowledgement issued to Primus Accumulator Limited.
- Acknowledgement issued to Suite Finance SCC PLC.
- Acknowledgement issued to Select Industries PLC.
- Acknowledgement issued to Vernier SCC PLC.
- Acknowledgement issued to 42Securities Limited.

CELLS

- Acknowledgement issued to AIF Asset Backed Cell.
- Acknowledgement issued to Arkadia MNE Cell.
- Acknowledgement issued to Bridge Cell.
- Acknowledgement issued to Cell Sallfort VC.
- Acknowledgement issued to Finsion Life Cell.
- Acknowledgement issued to HAVENGRID 2026 ZC Cell.
- Acknowledgement issued to InverEquity Cell.
- Acknowledgement issued to PV Securitisation Cell.
- Acknowledgement issued to MIFP 2021 ZC Cell.
- Acknowledgement issued to Romanian Diversified Basket Tracker Bond Cell.
- Acknowledgement issued to SUITE-RE 2026 ZC Cell.
- Acknowledgement issued to Tiche Cell.

SURRENDERED LICENSES

Banking

CREDIT INSTITUTIONS

- Deutsche Bank (Malta) Limited.

FINANCIAL INSTITUTIONS

- International Transaction Payment Solutions (Malta) Limited.

Insurance

INSURANCE UNDERTAKINGS

- Multi Risk Benefits Limited.

INSURANCE MANAGERS

- Kane LPI Solutions (Malta) Limited.
- Alternative Risk Management (Malta) Limited.
- HSBC Insurance Management Services (Europe) Limited.
- IIM Limited.

INSURANCE AGENTS

- Citadel Health Insurance Agency Limited.
- Allcare Insurance Agency Limited.
- Millennium Insurance Agency Limited.

INSURANCE BROKERS

- International Insurance Brokers Limited.
- Ark Insurance Brokers Limited.
- GlobalCapital Insurance Brokers Limited.

PROTECTED CELL

- Totemic Cell 2 of Atlas Insurance PCC Limited.

Investement Services

CATEGORY 2

- Liongate Capital Management Limited.
- Melidon Asset Management Limited.
- C8 Investments Limited.

CATEGORY 4A

- Deutsche Bank (Malta) Limited.

RECOGNISED FUND ADMINISTRATORS

- TMF FundAdministrators (Malta) Limited.
- TMF FundServices (Malta) Limited.

Collective Investment Schemes

PROFESSIONAL INVESTOR FUNDS TARGETING QUALIFYING INVESTORS

- Ananea Funds SICAV plc in respect of three sub-funds.
- AtonRâ Umbrella Fund SICAV plc.
- Brooksbridge SICAV plc.
- Core Strategy SICAV plc in respect of two sub-funds.
- DTMR Management SICAV plc in respect of one sub-fund.
- HFH SICAV plc in respect of one sub-fund.
- Himalaya SICAV plc in respect of two sub-funds.
- Innocap Fund SICAV plc.
- JVC Capital SICAV plc.
- Knights of Malta Investments Funds SICAV plc in respect of one sub-fund.
- LL Global Fund Series SICAV plc in respect of one sub-fund.
- Malta IFP SICAV plc in respect of two sub-funds.
- MCM Global Opportunities Fund SICAV plc in respect of two sub-funds.
- Melita Funds SICAV Limited.
- NBCG Fund SICAV plc.
- Palladium Fund SICAV plc.
- Paragon SICAV plc in respect of two sub-funds.
- PerSYSTEMcy SICAV plc in respect of two sub-funds.
- Petra Umbrella Fund SICAV plc.
- R&R Quality Funds SICAV plc.
- Resco Funds SICAV plc in respect of one sub-fund.
- Reventón Advanced Solutions SICAV plc.
- Sabius SICAV Limited in respect of one sub-fund.
- Spectrum Fund (SICAV) plc in respect of one sub-fund.
- Swiss Investments Fund SICAV plc in respect of one sub-fund.
- Taliti Funds SICAV plc in respect of one sub-fund.
- The Nascent Fund SICAV plc in respect of one sub-fund.
- Woodman Funds SICAV plc in respect of two sub-funds.

PROFESSIONAL INVESTOR FUNDS TARGETING EXPERIENCED INVESTORS

- Cerro Torre SICAV plc in respect of two sub-funds.
- Hedge Invest Alternative Funds SICAV plc.

ALTERNATIVE INVESTMENT FUNDS TARGETING QUALIFYING INVESTORS

- CAM Fund Series SICAV plc.

ALTERNATIVE INVESTMENT FUNDS TARGETING PROFESSIONAL INVESTORS

- Comino Umbrella Fund SICAV plc in respect of one sub-fund.
- The ARP Funds (SICAV) plc in respect of one sub-fund.

UCITS

- AQA UCITS Funds SICAV plc in respect of one sub-fund.
- Calamatta Cuschieri Funds SICAV plc in respect of one sub-fund.
- Capital Strategy Funds SICAV plc.
- Celsius Global Funds SICAV plc.
- Eiger SICAV plc in respect of one sub-fund.
- EMIntrinsic SICAV plc.
- Invictus SICAV plc in respect of one sub-fund.

RECOGNISED INCORPORATED CELL COMPANIES

- Sei Private Invest Fund RICC Limited.

INCORPORTATED CELLS

- Andromeda Fixed Income IC SICAV plc.
- Aros Bond Strategies SICAV IC plc.
- Aros Cash Alternative SICAV IC plc.
- Auka Tactical Trading IC SICAV plc.
- Gvolution IC SICAV plc.
- Lupum Global Macro Fund IC SICAV plc.
- Nivesa Private Fund IC SICAV plc.
- Nordic Global Alpha IC SICAV plc.
- Roccaforte IC SICAV plc.

Trustees, Fiduciaries And Nominees

- Safehaven International Limited.
- MSS International Services Limited.
- Fenlex Nominee Services Limited.

Company Service Providers

- Teos Management and Advisory Services (Malta) Limited.

APPENDIX VI - MEMORANDA OF UNDERSTANDING IN FORCE AS AT 31 DECEMBER 2016

Entity	*Scope of Agreement*
Bilateral MoUs with Foreign Regulators	
Australian Prudential Regulation Authority	Banking and Insurance
Austrian Financial Market Authority	Credit Institutions
Belgian Banking and Finance Insurance Commission	Banking
Bermuda Monetary Authority	Insurance, Credit Institutions and Trusts
Cayman Islands Monetary Authority	Credit Institutions, Insurance, Securities and Trusts
China Banking Regulatory Commission	Banking
China Securities Regulatory Commission	Securities
Cyprus Central Bank	Credit Institutions
German Federal Financial Supervisory Authority	Banking, Securities and Insurance (Primarily Banking)
Gibraltar Financial Services Commission	Banking, Securities and Insurance.
Guernsey Financial Services Commission	Banking, Investment Services, Insurance and Fiduciary Services
Isle of Man Financial Services Commission	Securities and Banking
Isle of Man Insurance and Pensions Authority	Mutual Assistance and exchange of information
Jersey Financial Services Commission	Mutual Assistance and exchange of information
Mauritius Financial Services Commission	Securities, Insurance and Pensions
Netherlands Central Bank	Banking
Portugal Central Bank	Credit Institutions
Portugal Securities Market Commission	Securities
Qatar Financial Centre Regulatory Authority	Banking, Financial and Insurance related business
Slovakia National Bank	Banking, Insurance and Securities
South Africa Financial Services Board	Securities, Insurance and Pension Funds
Turkey Banking Regulation and Supervision Agency	Banking
Turkey Capital Markets Board	Securities
U.A.E. Dubai Financial Services Authority	Securities, Credit Institutions, Insurance and Trusts
U.S.A. Nebraska Department of Insurance	Insurance
UK Financial Services Authority	Banking, Insurance and Investment Services
Ukraine National Securities and Stock Markets Commission	Securities and Markets
Vietnam National Financial Supervisory Commission	Banking, Securities and Insurance
Bilateral MoU's with Local Authorities	
Central Bank of Malta	Payment and Securities settlements systems, and on the Exchange of Information in the Fields of Financial Services
Ministry of Finance, the Economy and Investment and Central Bank of Malta	Co-operation in the management of financial crisis situations
Office of Fair Competition	Mutual Assistance and exchange of information.
Multilateral MoUs and Protocols	
EIOPA	Insurance and occupational Pensions
ESMA	Securities
Financial Supervisory Authorities, Central Banks and Finance Ministries of the EU	Cross-Border Financial Stability
International Association of Insurance Supervisors (IAIS)	Exchange of Information in insurance regulatory and supervisory matters.
IOSCO	Securities

APPENDIX VII – PENDING APPEALS BEFORE THE FINANCIAL SERVICES TRIBUNAL AS AT 31ST DECEMBER 2016

1. Christopher J. Pace v. MFSA (Case Ref: FST3/09)
2. Nicholas Portelli v. MFSA (Case Ref: FST04/09)
3. James Blake v. MFSA (Case Ref: FST5/09)
4. European Insurance Group Ltd v. MFSA (Case Ref: FST01/10)
5. Denise Zammit v. MFSA (Case Ref: FST01/12)
6. MFSP Financial Management Ltd v MFSA (Case Ref: FST04/12)
7. All Invest Company Limited v MFSA (Case Ref: FST 1/13)
8. All Invest Company Limited and Wallace Falzon v MFSA (Case Ref: FST 2/13)
9. Hermione Bugeja v MFSA (Case Ref: FST 1/14)
10. Murcko, Legay, Premier Interchange Gateway Limited v MFSA (Case Ref: FST1/15)
11. Novium AG v MFSA (Case Ref: FST2/15)
12. Alan Kentish v MFSA (Case Ref: FST3/15)
13. JFP Investments SICAV plc v MFSA (Case Ref: FST1/16)
14. FX-CAM Consulting and Advertisement Ltd (formerly Sensus Capital Markets Ltd.) v MFSA (Case Ref: FST2/16)
15. St Publius Corporate Services Ltd v MFSA (Case Ref: FST3/16)
16. Heikki Niemela, Mika Lehto, Nemea plc, Nevestor SA, Nemea Bank plc v MFSA (Case Ref: FST4/16)
17. STM Malta Trust and Company Management Ltd v MFSA (Case Ref: FST5/16)
18. Roman Orloff, Anar Shadlinsky and Zaur Aslov v MFSA (Case Ref: FST6/16)
19. Hollingsworth International Financial Services Ltd v MFSA (Case Ref: FST7/16)
20. Futura Investment Management Ltd v MFSA (Case Ref: FST8/16)
21. Hollingsworth International Financial Services Ltd v MFSA (Case Ref: FST9/16)
22. Heikki Niemela, Mika Lehto, Nemea plc, Nevestor SA, Nemea Bank plc v MFSA (Case Ref: FST10/16)

Pending Court cases as at 31st December 2016

Court of Appeal (Civil, Inferior):

23. Bugeja Hermione vs MFSA (5/2015/1 EG)

Court of Appeal (Civil, Superior):

24. Martone Dottor Michele Pro Et Noe vs Gatt Raymond, MFSA (1099/2006/1)

Civil Court, First Hall:

25. All Invest Company Ltd vs X (winding-up proceedings) (888/2013 JZM)
26. Amedeo Barletta noe vs MFSA (276/2012 JRM)
27. Maltese Cross Financial Services Ltd v X ((winding-up proceedings) (204/2015 JZM)

APPENDIX VIII - LIST OF CHARTS AND TABLES

APPENDIX IX - ABBREVIATIONS USED IN THIS REPORT

AIF	Alternative Investment Fund
AIFMD	Alternative Investment Fund Managers Directive
AIFMs	Alternative Investment Fund Managers
AML	Anti-Money Laundering
ATMs	Automated Teller Machines
AUM	Assets under Management
AWAS	Agency for the Welfare of Asylum Seekers
BE	Best Execution
Brexit	A term for the United Kingdom's planned withdrawal from the European Union.
BRRD	Bank Recovery and Resolution Directive
BSU	Banking Supervision Unit
BU	Banking Union
CA	Comprehensive Assessment
CBM	Central Bank of Malta
CFT	Combating the Financing of Terrorism
CMTF	Crisis Management Task Force
CMU	Capital Markets Union
COREP	Common Reporting (System)
CRD	Capital Requirements Directives
CRR	Capital Requirements Regulation
CSDR	Central Securities Depositories Regulation
CSP	Company Service Provider
CSR	Corporate Social Responsibility
CSU	Conduct Supervisory Unit
CU	Communications Unit
DGS	Deposit Guarantee Schemes
DGSD	Deposit Guarantee Schemes Directive
DSC	Domestic Standing Committee
EBA	European Banking Authority
ECB	European Central Bank
ECC	Education Consultative Council
ECON	Committee on Economic and Monetary Affairs
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European long-term investment funds
EMIR	European Markets Infrastructure Regulation
ESA	European Supervisory Authorities
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EWSM	European Wholesale Securities Market
FATF	Financial Action Task Force
FIAU	Financial Intelligence Analysis Unit
FIR	Financial Institutions Rule
FLAOR	Forward Looking Assessment of Own Risks
FSC	Financial Stability Committee
GDP	Gross Domestic Product
HR Unit	Human Resource & Development Unit
IAIS	International Association of Insurance Supervisors
ICD	Investor Compensation Scheme Directive
ICT Unit	Information and Communication Technologies Unit
IFS	Institute of Financial Services
IFSP	Institute of Financial Services Practitioners
ILS	Institute of Legal Studies
IMAS System	Information Management for SSM
IOSCO	International Organisation of Securities Commissions
IPSU	Insurance and Pensions Supervision Unit
IT	Information Technology
JFSB	Joint Financial Stability Board
Jobsplus	Employment and training agency in Malta
JSTs	Joint Supervisory Teams
LSIs	Less Significant Institutions
MAD	Market Abuse Directive
MARM	Malta Association of Risk Management
MAR	Market Abuse Regulation
MCAST	Malta College of Arts Science and Technology
MCCAA	Malta Competition and Consumer Affairs Authority
MCR	Minimum Capital Requirement
MFIN	Ministry for Finance
MFSA	Malta Financial Services Authority

MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MIM	Malta Institute of Management
MIMA	Malta Insurance Managers Association
MITC	Malta International Training Centre
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
MOU	Multilateral Memorandum of Understanding
MSE	Malta Stock Exchange
MTF	Multilateral Trading Facility
NAV	Net Asset Value
NCA	National Competent Authority
NPLs	Non-Performing Loans
NSA	National Supervisory Authority
ORSA	Own Risks and Solvency Assessment
OTC	Over The Counter
OTF	Organised Trading Facility
PAD	Payments Account Directive
PCCs	Protected Cell Companies
PFMA	Prevention of Financial Markets Abuse
PIFs	Professional Investor Funds
PRIIPs	Packaged Retail and Insurance-based Investment Products
PSD	Payment Services Directive
PSD2	Directive (EU) 2015/2366 on payment services in the internal market
PWC	PricewaterhouseCoopers
Q & A	Questions & Answers
QROPS	Qualifying Recognised Overseas Pension Schemes
RC	Resolution Committee
RDU	Regulatory Development Unit
RICCs	Recognised Incorporated Cell Companies
RMICAAP	Risk Management Internal Capital Adequacy Assessment Process
ROC	Registry of Companies
RRR	Recovery and Resolution Regulations
RSPV	Reinsurance Special Purpose Vehicle
RSR	Regular Supervisory Report
RTSs	Regulatory Technical Standards
RU	Resolution Unit
SFCR	Solvency and Financial Condition Report
SICAV	Investment company with variable share capital
SIs	Significant Institutions
SMSU	Securities and Markets Supervision Unit
SRB	Single Resolution Board
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
T4U	Tool for Undertakings
TLAC	Capital and leverage ratio add-ons for globally systemic banks
UCITS	Undertakings for Collective Investment in Transferable Securities
UK	United Kingdom
US	United States of America
WSM	Wholesale Securities Market

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