

Media Release

MFSA Annual Report 2013

2013 has been another successful year for the Maltese financial services industry, with activity recorded in all sectors of the finance industry as trading conditions eased and signs of growth began to appear in the larger economies. MFSA Chairman Professor Joseph Bannister said this in the Annual Report tabled in Parliament by the Minister for Finance Prof. Edward Scicluna.

Growth and new licenses were registered across the range of the industry. The fund services infrastructure in Malta continued to build up in 2013 with the issuance of more investment services licences predominantly at Category 2 level. There were 125 investment service licences at the end of 2013, a net increase of almost 11 per cent from the previous year. During the year in review, the Authority licensed 135 new Collective Investment Schemes (including sub-funds), a slight increase over the previous year. While the number of new licensed PIFs remained almost at the same level of the previous year, the number of new licensed UCITS funds doubled during the same period. Additionally, there were 188 non-Malta domiciled funds (including sub-funds) administered by Malta-based fund administration companies at the end of 2013. This represents an increase of 31 percent from the previous year. Among the emergent niches of growth, retirement pension schemes registered an increase of 88 per cent when compared to the previous year. Additionally, there were two retirement funds registered in terms of the Act.

In his introductory address, the Chairman focused on the immediate future and, most notably, on the new EU regulatory requirements as they affect each key part of the industry. "The new approach presents significant challenges to the industry and regulators alike. They aim to lay the foundations for a more stable, robust and competitive finance industry in the future. In addition to the new structures, legislation and regulations emanating from the EU, the world's two largest financial services economies, the USA and the UK, have also carried out reforms in their regulatory structures, philosophy and legislation. Other high quality jurisdictions around the world have made or are implementing adjustments as to how the finance sector is regulated. Taken as a whole, there is no doubt that we are experiencing the biggest changes to financial regulation the world has known and all this is happening at unprecedented speed" commented Professor Joe Bannister.

"Confidence is the critical element and fundamental to the EU's ability to remain globally competitive in financial services, attract corporate and private capital, develop products that meet market needs and enhance the industry's ability to sustain healthy profit margins. This is a challenging time for the finance sector in Europe and North America. Asia, Africa and South America are producing new corporate and private wealth and the finance industry, both local and international, is establishing a broad range of services and expertise to assist customers in emerging markets. In the mature, mainly Western economies, governments have to tackle high levels of national debt, a decrease in the numbers of economically active people as the aged become the largest group in society and escalating costs for public health and social care. These changes are creating new product openings for the finance sector, though in these politically delicate areas consumer and political confidence, value for money and clear customer benefits will be fundamental to success."

With regards to regulation, the Chairman stresses the fact that while structure and details will vary across the globe, in high quality jurisdictions broadly similar philosophies, rules and procedures will apply. In banking, insurance, fund management and investment services the same patterns are apparent worldwide; convergence on consumer protection, corporate governance and regulation and centred on transparency, high standards of personal and corporate conduct and fit for purpose people. Regulators and the regulated have to respond to new levels of complexity and legally codified standards of corporate and individual behaviour. All sectors of the finance industry now have to comply with new requirements in liquidity, corporate governance, consumer protection, transparency, conduct of business rules and with tighter laws and obligations regarding preventing market abuse, money laundering and corruption.

Malta is more advanced in enshrining the new EU legislation in law than any other EU nation. Malta was the first jurisdiction to complete the transposition of the Alternative Investment Fund Management Directive. The new legislation and regulations coming into force will, particularly in the early years, put very considerable demands on the people and resources of the MFSA. New systems always take time to be introduced and, in the complex world of financial services, the Authority, industry representative bodies and individual firms will have to reach conclusions on a great many issues of meaning, interpretation and purpose.

Locally, the MFSA has decided to review the conduct of business regulatory regime for the investment services sector, with the primary goal of enhancing customer protection. The consultation paper issued to interested parties addressed various issues, such as defining types of customer, measuring risk, the dissemination of information on risk, “know your customer” tests, standards of care, records and disclosures, professional standards, designations, transparency and qualifications for advisory functions, measures on inducements and disclosure of remuneration. The Authority’s proposals have gone out to consultation and the feedback is now being evaluated.

The recommendations are entirely in line with EU requirements and aim to ensure that Maltese consumers and investors have acceptable levels of protection and that the rules are applied by firms in Malta in ways that enhance consumer confidence and build on the country’s established reputation for business probity and high standards. The Conduct of Business Rules define, in principle, the same standard of behaviour to be expected of any financial business in the post-crisis world.

Given the new complexities of the pan-EU regulatory scene, it is more important than ever that the MFSA and industry representatives continue to play an active role in their respective EU consultative and policy fora. It will be a challenge for us all to apply the new regimes and keep an eye open for threats and opportunities that arise from implementation and revision across Europe.

“High standards, openness, cooperation, entrepreneurship and nimbleness characterise the Maltese financial services sector. The MFSA is characterised by expertise, knowledge, rigour, impartiality, fairness and a commitment to service. By ensuring that all of these qualities remain strong at the Authority and in the industry the country can continue to reap the benefits for many years to come”, concluded Prof. Bannister.

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