

4 December 2024

## MFSA Assesses Investment Firms' Knowledge on the Latest European Regulations

With the aim of attaining high compliance standards within the financial service industry, including the investment sector, the Malta Financial Services Authority conducts a range of supervisory activities using a set of diversified tools, such as on-site Inspections, off-site work and meetings.

As a result of the supervisory engagements conducted with a sample of investment firms between 1 July 2022 and 31 July 2024, the MFSA was able to gauge how these entities were complying with the respective Rules and Regulations and adapting to the more recent ones such as the Investment Firms Regulation and Directive (IFR/D).

While the Authority has noted a marked improvement within the sector, giving due weight to a strong governance and compliance culture within their structures, areas for consideration were still identified, particularly in the areas of internal controls, policies and procedures, risk management and conflict of interest.

The MFSA emphasises the importance of having a robust Board composed of a mix of Executive and Non-Executive members who actively challenge, scrutinise and question the operations and strategies of the Investment Firm they represent. In this regard, active participation from all members of the Board, especially Non- Executive Directors, is required, since these view the firm from a different perspective and can offer unique guidance due to not being involved in the day-to-day operations.

During the supervisory engagements held, compliance officers appeared to be familiar with their role, responsibilities and subject matter, with the exception of some who were not too knowledgeable on the IFR/D. Upon reviewing compliance reports, it was further noted that some reports lacked sufficient detail and did not provide documented evidence of the checks carried out.

Commenting on the outcomes of these supervisory engagements, MFSA's Head of Investment Services Supervision Doreen Balzan said: "During the course of the introduction and subsequent implementation of the IFR/D, the Authority issued various briefings and published a series of Circulars to keep the industry updated on any developments, as well as provide guidance on what is required and expected of licensed firms. The supervisory engagements held between July 2022 and July 2024 also served as an opportunity to verify the knowledge of Board Members and the Compliance Officer on these requirements."

The findings of MFSA's supervisory engagements with investment firms were published in a [Dear CEO Letter](#), highlighting good practices as well as various areas of improvement which require stronger adherence to the Authority's expectations and the respective regulatory requirements.

## About MFSA

The Malta Financial Services Authority (MFSA) is the single regulator of financial services in Malta, covering banks, insurance companies, investment services, trusts and pensions. In 2018, the MFSA became the first European regulator to develop a framework to regulate virtual financial assets. The MFSA's mission, as enshrined in its Strategic Statement, is to enhance its position as an independent, proactive and trustworthy supervisory authority with the main purpose of safeguarding the integrity of markets and maintaining stability within the financial sector, for the benefit and protection of consumers. The MFSA licenses over 2,000 entities to operate in the financial services sector.

