MFSA MALTA FINANCIAL SERVICES AUTHORITY

SUPERVISION

PRIORITIES 2025

Contents

Table of Abbreviations

AIFs	Alternative Investment Funds
AIFMs	Alternative Investment Fund Managers
AIFMD	Alternative Investment Fund Managers Directive
AML	Anti-Money Laundering
BRRD	Bank Recovery and Resolution Directive
C&E	Climate-related and Environmental
CASP	Crypto Asset Service Providers
CEO	Chief Executive Officer
CFT	Combatting the Financing of Terrorism
CONSOB	Commissione Nazionale per le Società e la Borsa
CRR	Capital Requirements Regulation
CSP(s)	Company Service Provider(s)
CSRD	Corporate Sustainability Reporting Directive
DG	Directorate-General
DORA	Digital Operational Resilience Act
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EMIR	European Market Infrastructure Regulation
ESA(s)	European Supervisory Authority(ies)
ESG	Environment, Social and Corporate Governance
ESMA	European Securities and Markets Authority
ESRSs	European Sustainability Reporting Standards
EU	European Union
FATF	Financial Action Task Force
FCA	Financial Conduct Authority
FIs	Financial Institutions
GRC	Governance, Risk & Compliance
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information and Communications Technology
ILAAP	Internal Liquidity Adequacy Assessment Process
INEDs	Independent Non-Executive Directors
KRIs	Key Risk Indicators
MBR	Malta Business Registry
MiCA	Markets in Crypto Assets
MiCAR	Markets in Crypto Assets Regulation

MiFIR	Markets in Financial Instruments Regulation
MFSA	Malta Financial Services Authority
MGA	Malta Gaming Authority
MLRO	Money Laundering Reporting Officer
NCA(s)	National Competent Authority(ies)
NFRD	Non-Financial Reporting Directive
PF	Proliferation Financing
RTS	Regulatory Technical Standards
SD&R	Sustainability Disclosure & Reporting
SFDR	Sustainable Finance Disclosure Regulation
SFRD	Sustainable Finance Reporting Directive
SREP	Supervisory Review and Evaluation Process
TF	Terrorist Financing
TFS	Targeted Financial Sanctions
TIIs	Tied Insurance Intermediaries
TSI	Technical Support Instrument
TUBOR	Trusts Ultimate Beneficial Ownership Register
UCITS	Undertakings for the Collective Investment in Transferable Securities
UK	United Kingdom
VFA	Virtual Financial Assets
VFASPs	VFA Service Providers

Section I

Overview & Update - Supervisory Priorities 2024

The Significance of Our Supervisory Priorities

The setting of the annual supervisory priorities, and the publication of this document, outline the main supervisory and regulatory priority areas that have been determined for the upcoming calendar year. This exercise is particularly important to guide decision-making related to prioritisation to ensure that the Authority uses its resources to obtain the best possible results with respect to:

i. the protection of the consumers of its regulated entities;
ii. the integrity of Maltese financial markets; and
iii. maintaining Malta’s financial stability.

The MFSA’s supervisory priorities for 2025 have been carefully selected in alignment with current regulatory developments, market environment, the European Union Strategic Priorities, the work programs of the European System of Financial Supervision, recommendations of international standard setters, as well as regulatory and supervisory experience. The supervisory priorities outlined in 2024 retain their significance, therefore the MFSA intends to renew its commitment to achieve the seven supervisory priorities it had indicated for 2024, namely Resilience of its Supervised Entities, Sustainable Finance, Digital Finance, Governance Risk & Compliance, Financial Crime Compliance, Consumer Protection & Education and Cross-Border Supervision. In addition, the MFSA will seek to apply its Compliance Outcomes-Based approach throughout the supervision of the entire financial services sector, building on the progress and momentum that was gained through the pilot project started in 2024.

Figure 1 - Supervisory Priorities for 2025

It is important to note that supervisory priorities outlined in this document should not be considered in isolation, but rather as focus areas of a wider array of work which the Authority will be performing in 2025.

The priorities set out in this document may change during the year as the Authority responds to new risks and events. Any such changes will be communicated through further interactions, as may be deemed necessary.

Alignment with MFSA Strategy 2023-2025

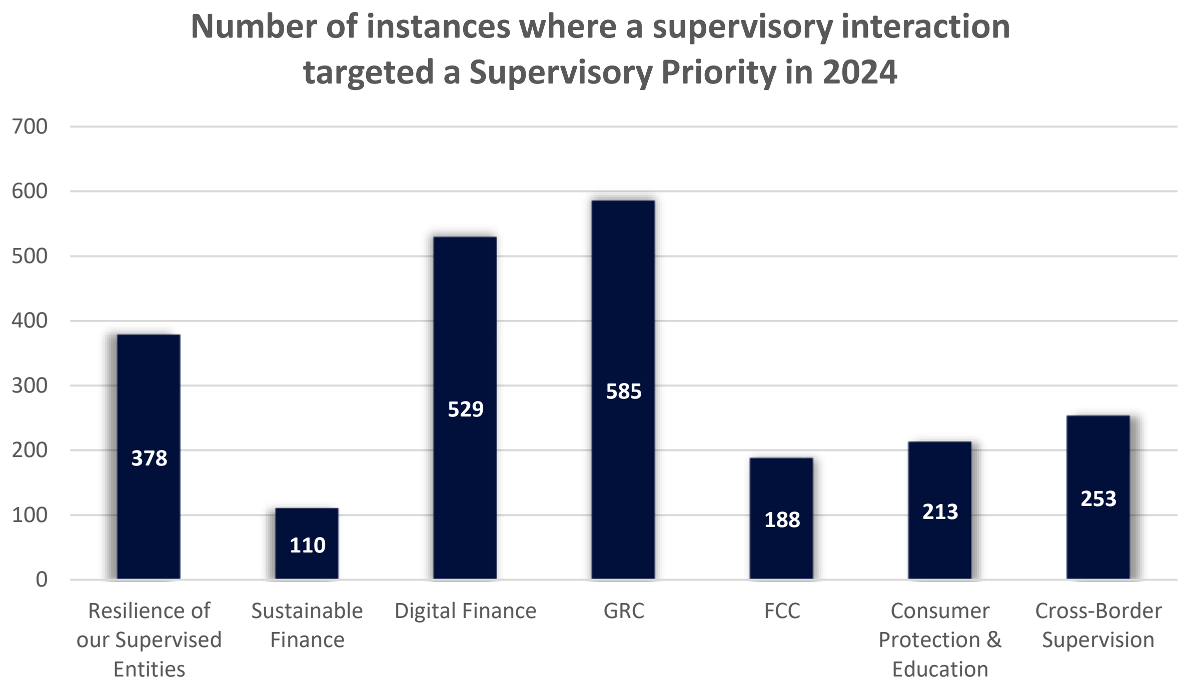
The priorities established in this document build on the strategic objectives set out in the MFSA Strategic Statement published in February 2023, which are the following:

i. delivering agile and proactive regulation;
ii. sustaining a resilient, internationally networked financial sector;
iii. promoting good governance and compliance;
iv. embracing innovation; and
v. engaging with the public.

Key to this drive are the strategic milestones set by the Authority in its ongoing efforts to increase the level of supervisory effectiveness by, *inter alia*, further strengthening its risk-based models, reviewing supervisory policies, processes and procedures, leveraging on cross-border regulatory convergence and supervisory cooperation, and enhancing the system-wide resilience to operational and financial stability risk.

Measurement of the MFSA's Interactions with its Supervised Entities

In 2024, the MFSA maintained a high number of supervisory interactions with its supervised entities aligned with the seven supervisory priorities. There are also instances when supervisory interactions impact more than one supervisory priority.



The diagram above displays data as at 31st December 2024, and shows the number of times where a supervisory priority was targeted by a supervisory interaction in 2024. One supervisory interaction may impact more than one supervisory priority, depending on the interaction's scope. Several supervisory inspections, thematic reviews and supervisory meetings had more than one scope and included diverse themes across the different supervisory priorities. For example, GRC was targeted 585 times, of which, 253, 207, 120 and 5 stemmed from supervisory meetings, thematic reviews, supervisory inspections and SREP respectively. This was consistent throughout the other supervisory priorities. The findings of the above interactions were communicated to supervised entities either directly through letters addressed to them and/or through "Dear CEO Letters" addressed to the entire financial services industry. In 2024, the MFSA published **15** "Dear CEO Letters", each having a specific focus area, to shed light on any observations that the MFSA could have made from the supervisory interactions. It is expected that all supervised entities take note of these observed shortcomings and ensure to implement any necessary actions to tackle the observations.

These publications are important because they serve as formal communications from the MFSA to the entities falling within its remit, outlining critical expectations, guidelines, or concerns related to regulatory and compliance issues, aiming at improving overall industry standards. These letters often address emerging risks, regulatory changes, or areas of non-compliance, emphasising the need for corrective actions or heightened vigilance. By directly addressing CEOs, the Authority ensures that the highest level of leadership is aware of key issues and is held accountable for the entity's adherence to regulatory requirements, helping to maintain stability and integrity in the financial system.

Spotlight on Sustainable Finance and Cross-Border Supervision

The supervisory priorities document aims to showcase the work being done to achieve supervisory effectiveness in all sectors in the financial services industry. In 2024, significant progress was made in targeting all seven supervisory priorities through the MFSA's supervisory framework. This section sheds a spotlight on the progress made in 2024 in two of the MFSA's supervisory priorities: Sustainable Finance; and Cross-Border Supervision.

ESG Considerations in the Banking Sector

As the financial sector evolves amid growing climate and environmental concerns, managing these risks has become a global priority. The European Commission, the ECB, and the EBA are increasingly promoting resilient and sustainable growth in banking. In December 2022, the MFSA issued a Circular on the "Thematic Review on Climate-Related and Environmental Risks – Less Significant Institutions". In this Circular and in the Authority's 2024 Supervisory Priorities document, in line with the ECB's Supervisory Priorities 2023-2025, the MFSA underscored the need for institutions to address C&E risks within business strategies, governance, and risk management. The Authority emphasises that these priorities apply to all institutions, regardless of size or systemic significance, to ensure a uniform and robust approach to managing C&E risks. Banks shall prioritise their preparedness to identify, manage, monitor and mitigate C&E risks. As both physical and transition risks become more tangible, the financial impacts of C&E risks are increasingly evident, extending beyond reputational damage. Boards must integrate potential C&E risks into their strategic assessments to safeguard business continuity and foster sustainable growth.

In preparation for CRD VI and the EBA Guidelines on ESG Risks (EBA/CP/2024/02), banks must integrate C&E risks into all risk categories (e.g., credit, operational, liquidity, market, etc) and their business models. Institutions should assess the materiality of these risks and reflect them in ICAAP, including quantifying exposures and allocating capital buffers to address potential losses. Banks are expected to adopt climate stress testing and scenario analysis to evaluate short, medium, and long-term impacts of physical risks (e.g., extreme weather) and transition risks (e.g., regulatory changes). Results should inform risk appetite and business strategies. Progress in stress testing and embedding findings is key.

As detailed in a "Dear CEO" letter which was published in January 2025, C&E risks must be incorporated into governance and risk management frameworks, with enhanced board oversight, integration into risk appetite, and capital planning. The MFSA urges a forward-looking, data-driven approach to align strategies, capital adequacy, and governance with regulatory expectations, ensuring resilience and sustainable growth.

Implementation of the CSRD

In 2024, the MFSA continued to support the local implementation of the CSRD through its supervisory work, outreach initiatives, as well as consultation and coordination with key stakeholders. Whilst in 2024, the relevant issuers were still reporting under the NFRD, the MFSA carried out examinations on the issuers' compliance with the respective sustainability reporting requirements, identifying areas that may need to be improved upon, also in preparation for reporting in terms of the CSRD. In this regard, the Authority additionally held supervisory meetings with all the listed entities subject to the NFRD.

Moreover, the MFSA undertook different outreach initiatives to raise awareness, provide guidance, and communicate its expectations. These initiatives include numerous circulars issued on the area and participation in informative discussions and events. One of these events was held in April 2024, organised as part of Malta's participation in an EU TSI multi-country project on supervisory capacity enhancement in sustainable finance, on the listed entities' transition from the NFRD to the CSRD.

Furthermore, the MFSA continued to participate in the national efforts required to transpose the CSRD, in collaboration with the MBR, the Accountancy Board, and the MGA, in consultation with the relevant stakeholders.

TSI Project – A Sustainable Finance Capacity Enhancement Initiative

In 2024, the MFSA completed the Technical Support Instrument project which offered support to Malta from DG REFORM of the European Commission, together with Croatia, Romania and Poland. This project aimed to assist NCAs in strengthening their supervisory capacity to design, develop and implement reforms in the area of Disclosure and Reporting with respect to the EU Sustainable Finance Package, which includes: Taxonomy Regulation and Delegated Acts, SFRD and Delegated Acts, NFRD, CSRD, Low Carbon Benchmark Regulation, and Proposal for a Standard on European Green Bonds.

The project included seven deliverables, with the first and last being the inception and final reports. The second deliverable focused on legislative mapping and analysis by identifying all EU SD&R disclosure and reporting obligations while also taking into account national-level implementation and ESAs guidelines. It also evaluated MFSA supervision mandates & powers in the EU SD&R, linking mapped requirements with areas of supervision.

The third deliverable aimed to target data and information requirements as well as their collection and respective processing. The main outcomes of this deliverable included the mapping of the data necessary to address each individual requirement recorded under the second deliverable, its sources and collection methods. It also provided an assessment of appropriateness of data collection and processing methods and analysis of the potential for modernisation of identification and extraction of qualitative data and analysis of sustainability-related information.

The fourth deliverable focused on good practices, where firsthand insights from international experts on EU SD&R supervisory practices provided best practice in regulatory reporting supervision and sustainable finance. The successful achievement of this deliverable put the MFSA in a better position to report on good supervisory practices on EUSD&R integrating findings gathered through the workshops and research undertaken as part of this project.

The TSI project also provided the MFSA with enhanced supervisory guidelines and tools for supervision of EU SD&R requirements. A significant outcome of the fifth deliverable was the EU SD&R Supervision Manual which includes a risk-based selection tool tailored for each supervisory function, a dashboard to consolidate sectoral supervised entities' risk scorings, an applicability checklist and assessment checklists for each main SD&R legal act. The supervisory tools are tailored to each supervisory function's needs, taking into account current supervisory procedures and expectations. The tools have been developed to allow for a phased adoption, based on the needs of the respective supervisory function and the available resources. Additional workshops and training sessions were organised to ensure alignment and knowledge-sharing on the tools.

The sixth deliverable of this project focused on stakeholders' engagement and awareness, by gathering stakeholder feedback on the state of awareness and readiness vis-à-vis EU SD&R requirements. Moreover, the MFSA held two specific workshops in 2024, which were led by in-house supervision experts to raise awareness within the industry on this important topic. This outreach was positively received by industry practitioners, as it allowed the MFSA to communicate its supervisory expectations and the outcomes of supervisory interactions carried out in this area. This, in turn, supports the market in understanding and applying SD&R requirements and provides better basis for enforcement action in case of non-compliance by regulated entities.

Implementation of TSI Recommendations

In its 2025 capital markets plan, the Authority aims to further enhance its supervision of the listed entities' compliance with the sustainability reporting requirements, and to consider the TSI Project's recommendations utilising risk-based selection tools and assessment checklists to align with ESMA's Guidelines on Enforcement of Sustainability Information. The MFSA will also apply a risk-based approach to sampling and rotation approaches to create a mixed model for selecting issuers for a supervisory interaction. This robust risk-selection tool will positively impact the selection process. The selected issuers would be subject to examinations from assessment checklists developed throughout the TSI Project.

Similarly, in the Insurance and Pensions sector, the MFSA will integrate the Risk-based selection tool developed under the TSI project into its 2025 work plans to enhance the efficiency and effectiveness of supervisory activities in relation to sustainable finance matters. The MFSA will be using the tool incrementally, increasing the level and detail of the assessment year on year. By leveraging this tool, the MFSA aims to prioritise resources and supervisory efforts on life insurance companies that sell investment-based insurance products and Retirement Scheme Administrators.

Initially a high-level risk-assessment, at entity level, based on the Risk-based selection tool will be performed regarding sustainable finance requirements. The results will be embedded into routine supervisory cycles, including both on-site and off-site supervisory interactions, enabling dynamic risk profiling across the insurance and pensions industry. Supervisory plans will be tailored to address identified vulnerabilities.

The tool uses a combination of KRIs and impact factors. The MFSA has updated the overarching KRIs and impact factors to tailor the tool to its needs and realities. The tool will enable the assessment and monitoring of the risks by incorporating key metrics such as, but not limited to, the size of the supervised entity, pension fund size, size of cross border activity, solvency & capital adequacy, governance quality, and operational resilience in order to be able to assess the risk associated with sustainable finance requirements for a particular entity. The risk-based tool will facilitate data-driven decision-making and enhance collaboration between teams by providing a shared platform for tracking risks and trends.

In the Investment Services sector, the MFSA will be implementing a number of initiatives to integrate sustainable finance into the life cycle of entities under its remit. In order to strengthen the internal framework for sustainable finance in investment services, the risk model of asset managers will be updated to integrate risk-based selection tools developed under the TSI project. To compliment this, sustainable finance will continue to be integrated in certain supervisory inspections as well as in the authorisation assessments.

From a conduct perspective, the MFSA has updated the consumer-related returns which licence holders are periodically required to submit to the Authority to capture any sustainable finance related risks and obtain information about initiatives relating to Sustainable finance taken by licence holders. To enhance its supervision on conduct-related matters in 2025, the MFSA aims to analyse the checklists provided under Deliverable 5 of the TSI project, which relate to supervisory guidelines and tools, and extract questions that can be used during broad scope supervisory meetings & onsite inspections.

The MFSA will sustain the dedicated section on the MFSA's website on sustainable finance and follow up on feedback received by licence holders during the roundtables which were organised as part of this project. In addition, the MFSA will further interact with supervised entities to present the outcomes derived from a consumer survey it commissioned with a scope to obtain a better picture of how consumers view and understand sustainable products and sustainable finance in general. The Authority will continue to issue "Dear CEO" letters highlighting the findings of the Authority's supervisory engagements and the MFSA's relevant expectations in this area.

Cross-Border Supervision in 2024

In 2024, the MFSA highlighted cross-border supervision as one of its supervisory priorities. As part of its ongoing supervision, the MFSA fosters an open, transparent, and collaborative approach with other European supervisory bodies to enhance cross-border monitoring and ensure effective oversight of its supervised entities operating in other territories. Such collaboration may also include joint efforts in order to address supervisory issues arising from the operations of entities operating in multi-jurisdictions.

The MFSA has closely co-operated with the Italian and Liechtenstein regulators with respect to an insurance-based investment product being marketed to local clients by an Italian insurance broker who had established a branch in Malta. Another instance related to a Maltese authorised insurance undertaking distributing insurance products in the UK, whose products were deemed not to provide value for money to customers.

The MFSA collaborated with the UK FCA and carried out an assessment of these products in the UK. This joint collaboration led the company to take the necessary remedial action to amend its products and provide value for money to consumers.

In 2024, the MFSA also cooperated with the Italian regulator, CONSOB, on a case involving a UCITS sub-fund which was operating in the Italian market. In 2023, the MFSA had published a supervisory expectation on this UCITS sub-fund to consider suspending all marketing activity in Italy temporarily, and to immediately inform the MFSA prior to onboard new retail clients. After new developments and various discussions, the MFSA and CONSOB reached an understanding with ESMA to achieve a common position on the handling of the matter.

A settlement agreement between the MFSA and CONSOB was signed in July 2024, specifically to restrict the fund from being marketed in Italy in view that the sub-fund was not potentially compliant with the UCITS framework, and poses a higher risk of exposure on the retail investors subscribed in the sub-fund.

In 2024, the MFSA also participated and contributed towards bilateral discussions with financial supervisors from Portugal, Serbia, Vietnam, and India. Additionally, in line with the policy direction stemming from the EU's new AML/CFT framework, the MFSA also collaborated with other EU authorities by submitting supervisory information into the EuReCA database pursuant to the draft RTS on a central database on AML/CFT in the EU.

Effective cross-border supervision relies on timely and accurate information-sharing between home and host supervisors. The MFSA takes an active role in supervising and monitoring cross-border operations through a combination of bilateral meetings with other NCAs, participation in Supervisory Colleges, and leading Supervisory Colleges where Malta is the Group Supervisor. For instance, the MFSA is currently holding several bilateral meetings with foreign NCAs to discuss a joint approach on an entity that is planning to licence local entities in three different countries, to share any information/concerns.

To enhance transparency and oversight, the Authority collaborates with other NCAs and incorporates specific agenda items related to cross-border activities into supervisory engagements including desk-based reviews. These discussions aim to evaluate governance structures, compliance with regulatory standards, and the management of cross-border risks. By addressing these aspects proactively, the Authority seeks to uphold the integrity of the market, safeguard consumer interests, and ensure that regulated entities maintain sound practices in their cross-border operations.

The scope for compliance inspections in host countries is to enable the MFSA to obtain a deep understanding of the organisational structures, governance arrangements including actual processes and procedures, and internal controls implemented relating to key functions, activities and services carried out by the entities established in the host country to support the respective undertakings regulated by the MFSA. They provide home and host supervisors with a holistic understanding of an institution's global activities, ensuring that risks are effectively managed across borders.

Section II

Compliance Outcomes-Based Supervision – An Update

Pilot Project – Our Progress So Far

In 2024, the MFSA introduced Compliance Outcomes-based supervision to its supervisory interactions by implementing a three-year pilot project with three of its supervisory functions. Compliance Outcomes-based supervision focuses on the intended results from supervisory interactions and derives an efficient way to achieve them, to maintain the three goals of financial regulation; consumer protection, financial stability and market integrity.

This concept strengthens the MFSA's risk-based approach where the most significant supervised entities, those with the ability to have the greatest impact on financial stability and the consumer, get a higher level of attention under structured supervisory interaction plans guided by the principle of proportionality. The initial three supervisory functions that carried out this approach were FinTech supervision, Supervisory ICT Risk & Cybersecurity, and Trustees Supervision. These functions engaged with their supervised entities and identified a number of findings which will be addressed in 2025 via the applicable outreach and/or remedial plans. In 2026, these functions will carry out another set of supervisory interactions to re-test the pre-determined outcome and assess the status of their achievement from the first round of interactions.

FinTech Supervision

In 2024, the Authority has set out four outcomes in this area which look to enhance and ensure:

i. the safeguarding of assets;
ii. governance arrangements and compliance with passporting rules;
iii. business resilience; and
iv. sufficient MiCA preparedness.

To assess the maintenance of sufficient arrangements relating to safeguarding of assets, the MFSA mainly conducted supervisory inspections and supervisory meetings. The main findings consisted of high concentration risks, lean governance, and an immature culture. 61% of the tested supervised entities demonstrated adequate standards of safeguarding in terms of best practices and legal compliance, while 26% of supervised entities signalled a need for improvement, where they exhibited notable deficiencies in their safeguarding best practices, legal compliance, or both. In 2025, these entities are expected to undertake remedial actions and adopt best practices to enhance their operational standards and ensure regulatory compliance.

Thirteen percent of the tested entities were found to have critical inadequacies, where they failed to reach the requisite standards for safeguarding best practices and legal compliance. Such entities pose a significant risk, necessitating the implementation of urgent and comprehensive reforms to mitigate potential adverse repercussions. The MFSA will ensure that adequate remedial action takes place in 2025, before carrying out supervisory interactions with the same entities in 2026.

To assess the level of MiCA preparedness, the MFSA held supervisory meetings with all active VFASPs and carried out desktop reviews of the necessary documentation. The sector was found to have a high level of MiCA readiness, especially from international firms. Supervisory findings also indicated that some of the smaller firms are in need of a revision of their business models. In addition, a thematic review was carried out to assess compliance with passporting rules. This highlighted issues in relation to data quality and at times, misclassification of commercial relationships, notably through erroneous interpretation of legal definition. In 2025, the MFSA will continue its efforts to enhance supervisory effectiveness by carrying out onsite inspections and supervisory meetings to identify financial institutions with weak business resilience and assess governance compliance, specifically with the Financial Institutions Rule (FIR03). A number of "Dear CEO" letters will be published to communicate supervisory findings with the financial services sector and sustain the outcomes-based supervision cycle ahead of the third and final year.

In view of the critical importance of outsourcing arrangements within the population of entities supervised in the FinTech sector, a 5th outcome "outsourcing arrangement" was added and assessed in 2024. Similar findings such as high concentration risks, lean governance and immature culture, were identified along with a general misalignment with the expectations set through the relevant EBA guidelines and FI Rules due to the misclassification of outsourcing arrangement. In 2025, expectations in this regard will be published through a "Dear CEO Letter".

Supervisory ICT Risk & Cybersecurity

The MFSA also focused on ICT Risk and Cybersecurity as one of its pilot functions to carry out Compliance Outcomes-based supervision in 2024. The area of ICT risk and Cybersecurity is cross-sectorial, therefore the MFSA was able to engage with a number of supervised entities across different sectors. The outcomes it set out to achieve related to:

i. DORA preparedness;
ii. the implementation of a strong risk management and compliance functions;
iii. the possession of an adequate incident management process; and
iv. the satisfactory status of Third-Party Providers.

These areas of focus were chosen on the basis of common observations through supervisory interactions carried out by the MFSA in the previous two years. In addition, outcomes-based supervision required a high degree of legal certainty in relation to the drafting of the controls that were under assessment where, as much as possible, all controls under assessment were taken from existing legal instruments and synonymising was avoided.

In the supervision of ICT Risk and Cybersecurity, the MFSA carried out its compliance outcomes-based supervision using a variety of supervisory tools including onsite inspections and thematic reviews. The information requested during these interactions generated statistical data which was analysed internally and utilised to extrapolate market trends and observations, general compliance shortcomings, and a three-dimensional analysis of the controls that were under assessment. This analysis provides the MFSA with measured results from its supervisory interactions and performance scorings obtained by every supervised entity. This can be applied in general, where one outcome is constituted by several controls, sectors could be compared against each other, and supervised entities may be compared against each other in different sectors.

It was observed that the most significant controls under assessment were 56% successful in fully satisfying the MFSA's requirements, which is a few percentiles away from the a-priori prediction of 65%. On the other hand, less significant controls achieved around 55%, which is in line with the MFSA's predictions at the beginning of 2024. Overall, it was observed that all four outcomes performed quasi-identical to each other and the risk was evenly distributed and not concentrated to a particular area that was under assessment.

In 2025, the MFSA will issue the necessary guidance based on the supervisory findings of 2024, which will then be followed by the respective supervisory interactions in 2026 to assess the progress in achieving the compliance outcomes.

Trustees Supervision

In the area of Trustees, the MFSA set out to achieve two compliance outcomes which are:

i. accurately reported Beneficial Owner information of trusts; and
ii. timeliness of reporting of Beneficial Ownership information on TUBOR.

In 2024, the MFSA utilised onsite inspections as the main supervisory tool to achieve the outcomes in this area, verifying the beneficial ownership data reported on TUBOR against the documentation and records maintained by trustees. At identification stage, the two compliance outcomes were chosen on the basis of their relevant contribution towards the MFSA's statutory objectives, Market Integrity, Consumer Protection and Financial Stability, as well as in view of the increased focus on transparency being emphasised at international level. In addition, the compliance outcomes where carefully chosen to have a direct correlation with the applicable statutory provisions and with the assessment controls used during the supervisory inspections.

In 2024, the MFSA conducted a number of supervisory inspections focused on the verification of information reported on TUBOR, in addition to the other supervisory interactions that cover other areas of focus for the rest of the Trustees sector, namely governance and compliance. During the analysis stage, each objective of every outcome was given a risk-rating based on the impact of that objective not being achieved. A risk score was automatically generated by measuring the result of the assessed objective and pre-determined risk rating. This quantitative approach allowed the MFSA to obtain a good understanding of the status of achieving its two compliance-outcomes.

The compliance outcomes-based approach will allow the MFSA to identify the worst-performing trustee as well as the objective which was met least by the entities subject to this exercise. Following the calculation of the mean result of all trustees, the MFSA ranked all trustees according to their performance in the testing of the two outcomes in scope of this exercise. The appropriate supervisory action plan, including necessary guidance and supervisory interactions with the worst performing trustees was set and will commence in January 2025.

The MFSA conducted an analysis of the number of controls which were treated as significant, and which were not met by the supervised entity, whilst also taking into consideration the number of trusts that the trustee manages. The mean was calculated on the significant controls that were not met to identify the trustees that performed the worst.

In order for the MFSA to be efficient in directing its supervisory efforts on the worst performing trustees, the pareto principle was applied, which focuses on the 80% of the sample which included the most prominent entities in this exercise. As a result, it was established, that enhanced supervision should be carried over some trustees with the highest number of high-risk factors which were not met. Once the results of the tested sample were aggregated, the MFSA assessed the worst performing objective, with particular focus being given to the high risk-rated objectives. From the results derived in this exercise the MFSA found that more emphasis needs to be directed towards achieving better accuracy of reported beneficial ownership information on TUBOR. In 2025, the MFSA will conduct the necessary outreach with the financial services sector, following the assessment of the worst performing objectives done in 2024. This will be followed by a set of supervisory interactions in 2026 to test the achievement of the pre-determined compliance outcomes.

Section III

A Comprehensive Compliance Outcomes-Based Approach

Sectoral Compliance Outcomes

In 2025, the MFSA will apply its Compliance Outcomes-Based approach throughout its supervision of the entire financial services sector. The selection of the compliance outcomes for 2025 was guided by observations from past interactions carried out by the Authority. This section provides an insight into the Authority's planned work on the Compliance Outcomes chosen per financial sector with the exception of FIs, VFASPs, and Trustees for which the compliance outcomes-based cycle started in 2024, as detailed in the previous section.

Credit Institutions

Outcome 1: ICAAP Stress Testing Capabilities

The MFSA is maintaining its focus on enhancing market integrity in the Maltese financial services sector. A robust stress testing framework allows banks to identify potential vulnerabilities in their balance sheets, including those that might arise from extreme, but plausible, adverse conditions. By understanding these risks, banks can take pre-emptive actions to mitigate them.

The disclosure of stress testing results, enhances transparency and confidence in banks from their respective stakeholders. Maintaining capital and liquidity buffers commensurate with the risks posed by banks leads to increased market confidence and consumer protection. The use of stress testing allows the MFSA to proactively assess the soundness of banks. This helps in the early detection of potential issues and enables timely regulatory interventions.

An adequate stress testing framework allows banks to ensure a robust mechanism for the identification and mitigation of risks. By identifying and addressing vulnerabilities within individual banks, stress testing aids in the prevention of contagion of financial distress from one institution to others, thereby reducing the risk of systemic crises. Stress test results provide important data to regulators and policymakers about the overall health of the Maltese banking sector, which aids in the accurate creation of the necessary macroprudential policies aimed at maintaining financial stability.

Outcome 2: ILAAP Assessment

A well-implemented ILAAP ensures that banks have the necessary robust processes to sufficiently assess and manage liquidity risk. This also promotes transparency and trust in the institution's capability to meet its liabilities, which is pivotal for maintaining market confidence. This compliance outcome aims to continue fostering the stability of the Maltese financial system, by encouraging institutions to take prudent risks, and in turn, avoid excessive risk-taking that could lead to market disruptions.

Sufficient liquidity and funding management minimises the risk of systemic crises that can arise from the failure of one or more institutions due to liquidity problems, while also providing a framework for effective liquidity management during periods of stress. This ensures the institutions' ability to continue operating without requiring emergency interventions, and hence preventing cases of financial instability.

Outcome 3: Adequacy of Reporting

The MFSA aims to maintain its efforts to promote data quality and transparency from its supervised credit institutions. The adequacy of bank reporting and disclosures ensures a reliable source of information, from which the Authority can generate accurate and comprehensive supervisory assessments. The MFSA will maintain its priority to protect consumers and ensure a high degree of transparency in credit institutions' disclosure of information for the benefit of potential consumers and investors. The adequacy of bank reporting and disclosures is also relevant to ensure financial stability, as the dependability of the aggregated data used in macroeconomic assessments, ensures sound and accurate conclusions.

Outcome 4: Credit Risk Management Frameworks (Distressed Assets)

The MFSA will continue to ensure and monitor that all banks in the Maltese banking system have put in place a sufficient risk management framework that is capable of carrying out an accurate assessment of the asset quality they hold, identify distressed borrowers and apply the proper risk quantification models. This aligns with the Authority's efforts to sustain the level of market integrity in the financial services sector.

The prudent treatment of credit risk increases confidence in the banking sector and encourages deposits and investment in credit institutions. The tangible quantification of credit risk is also reflected in the credit institutions' financial statements and Pillar 3 disclosures, which allows consumers to make informed decisions when establishing a relationship with a credit institution. Moreover, a robust risk management framework allows banks to mitigate macroeconomic risks, and hence safeguard financial stability in the Maltese economy.

Outcome 5: Credit Risk Management of Commercial Real Estate Exposures

The MFSA will focus on monitoring the Credit Risk Management of Commercial Real Estate lending, to ensure that banks with significant exposure to Commercial Real Estate sector have proper governance in the collateral management, collateral valuation mechanisms in place, prudent policies in the application of haircuts in the collateral value, quality data and reporting frameworks.

The identification and quantification of risks arising from Commercial Real Estate lending will reduce systemic risks to the Maltese banking sector and ensure healthy growth of the economy. Accurate reflection of risks associated to Commercial Real Estate lending practices will increase the confidence of depositors and investors promoting market discipline and transparency.

Capital Markets

Outcome 1: Adequate Implementation of the Sustainability Reporting Requirements by Listed Entities

Sustainability information based on the applicable EU legislation ensures that the information made available is reported against an established framework. This improves convergence and comparability across all listed entities (excluding Micro-undertakings) and all large companies, improving the overall market integrity in the financial services sector. In addition, adequate reporting in terms of the CSRD and the EU Taxonomy Regulation will enhance transparency on sustainability matters and limit the risk of greenwashing. This outcome aligns with the MFSA's efforts to keep protecting and educating consumers against deceptive marketing and fraudulent products.

The new sustainability reporting requirements are also expected to incentivise significant changes within entities, and they also bring about stability through a prescriptive reporting framework. Compliance with the respective requirements, comprehensively set out in the CSRD and ESRS, is paramount to ensure that entities are transparent on sustainability reporting matters and efforts are made to meet the targets set out in the European Green Deal. Such compliance is also crucial for consumer protection, since investors and other stakeholders should always be provided with the necessary information.

Outcome 2: Enhanced MiFIR Transaction Reporting

Through the supervisory interactions carried out in the last couple of years, the MFSA has identified recurring issues in transaction reports submitted by investment firms under MiFIR. To address these, the MFSA will carry out supervisory interactions in 2025 to help firms rectify these shortcomings, with a subsequent published circular containing guidance on transaction reporting. The MFSA will also conduct a number of supervisory interactions to assess compliance, focusing on member firms of the Malta Stock Exchange. The MFSA will keep sustaining its efforts to ensure firms become fully compliant by reviewing and categorising the status of any identified issues. Following the implementation of compliance outcomes-based supervision, the MFSA expects the investment firms to become fully compliant in those areas targeted by the exercise, and hence improve market integrity in the financial services industry.

Outcome 3: EMIR Refit and Reporting Expectations

The objective of EMIR is to increase transparency in derivatives market and reduce systemic risk. Effective transaction reporting ensures greater transparency in derivatives markets, and in turn, promotes investor protection. EMIR mandates reporting of all derivatives to trade repositories. Trade repositories centrally collect and maintain the records of all derivative contracts. They play a central role in enhancing the transparency of derivative markets and reducing risks to financial stability.

Throughout 2024 the MFSA collected data on the implementation of EMIR refit requirements by supervised entities and ranked these entities based on the adherence to EMIR refit. In 2025, the MFSA will carry out supervisory interactions with those entities which ranked amongst the weakest in terms of compliance, followed by the necessary outreach addressed to the financial services industry providing detail on the supervisory findings.

Outcome 4: Strengthening Listed Entities' Corporate Governance with a Focus on Gender Diversity

During 2025, the MFSA shall be carrying out on-site and/or off-site work to assess the adoption of Principle 3 of the Code of principles of good corporate governance which deals with the composition of the board and the effectiveness of the audit committee of listed entities. In carrying out these assessments, the Authority will be in a position to obtain further insight on the diversity of knowledge, judgment and experience which is required in terms of the principle, whether the board of directors understand and fully appreciate the business risks and whether the audit committee is fulfilling its functions in terms of the Capital Markets Rule.

Focus will be made on the progress registered by the large equity issuers which fall within the remit of the Gender Diversity Directive in achieving the objectives set by Directive; being 33% of total board or 40% of non-executive to be women. The MFSA is targeting to address at least half of the Equity Issuers and all the population being impacted by the Gender Diversity Directive.

Insurance and Pensions

Outcome 1: Implementation of Effective Risk Management Function

The MFSA seeks to assess how effectively the undertakings have implemented the risk management function which facilitates a robust risk management system. This is essential because it supports the undertakings' system of governance. The MFSA is also looking to maintain the assessment of the resilience of our undertakings by assessing the degree of effectiveness of the undertakings' risk management function. This will contribute towards maintaining overall financial stability in Malta.

Outcome 2: Implementation of Effective Oversight Role by Independent Non-Executive Directors ('INEDs')

The MFSA seeks to assess how INEDs are effectively promoting and contributing towards good governance, risk and compliance in their role within undertakings. This will be based on a number of supervisory interactions, which will enable the MFSA to highlight good practices and also identify gaps that may need to be addressed. The MFSA will communication the outcome of this exercise to all insurance undertakings and will set expectations in relation to the role of INEDs to ensure they are carrying out effective oversight.

Outcome 3: Quality of Data in Regulatory Financial Returns

The MFSA will be evaluating data management and compliance with Insurance Rules covering financial statements and supervisory reporting requirements. Through a series of supervisory inspections, the Authority will review the preparation of management accounts, national specific templates and quantitative reporting templates, as well as the end-to-end data flow processes, internal controls, and a detailed review of the IT systems in use. This ongoing process will support the Authority in ensuring that accurate data is submitted to it, contributing to the overall assessment of the financial soundness of insurance undertakings.

Outcome 4: Effective Use of Reinsurance by Undertakings

The MFSA will be assessing whether the insurance market has implemented good governance around the use of reinsurance as a risk mitigation technique in line with EIOPA's opinion and supervisory expectations. In this regard, the MFSA will continue to ensure that supervised undertakings are resilient and have successfully implemented good governance measures around the use of reinsurance as a risk mitigation technique. This assessment will contribute towards maintaining overall financial stability. The MFSA will carry out supervisory interactions in 2025 to successfully achieve this outcome followed by a communication to all insurance undertakings.

Investments and Securities

Outcome 1: Adequate Control Functions (Fund Management)

The MFSA will sustain its efforts in ensuring supervised entities possess effective governance, risk management, and internal control frameworks to safeguard the integrity, efficiency, and accountability of supervised entities. Control functions are critical to ensure that the operations of investment fund managers are sound and that the first line of defense operates as intended, meeting established expectations and adhering to its pre-defined mandate, delivering fair and equitable outcomes in the best interest of all investors. The MFSA will review the control functions of UCITS ManCos and AIFMs to ensure appropriate safeguards are undertaken in relation to the proper management of investor monies and that these are indeed managed in accordance with the required regulatory safeguards. ESMA will also be launching a Common Supervisory Action to determine the adequacy of staffing, authority, knowledge and expertise of control functions to perform their duties under the AIFMD and UCITS Directive. With the achievement of this outcome, the MFSA aims to continue enhancing confidence between market players as well as supporting the reputation of the Maltese financial system.

Outcome 2: Outsourcing Activities of AIFMs and UCITS ManCos

Whilst outsourcing of certain activities is common in the asset management sector, the monitoring of outsourced activities is critical to ensure the effective management of collective investment schemes and the continuity of critical services. The MFSA will carry out a review on outsourcing of critical functions due to the increased popularity of this practice, the growing international focus on outsourcing and based on previous supervisory experience, governance frameworks for outsourcing arrangements can sometimes be insufficient. The review is intended to strengthen the operational resilience of the asset management sector in Malta, ensuring that disruptions are effectively mitigated and do not compromise fund management operations. This builds on the MFSA's objective to safeguard market integrity in the Maltese financial services sector. Failure to adequately monitor outsourced functions can lead to service disruptions, which may also be detrimental to consumers, especially if they lead to material losses. With the achievement of this outcome, the MFSA seeks to minimise investor detriment while also preserving overall financial stability.

Outcome 3: Preparedness of the Recovery Plans

By pursuing the achievement of this outcome, the MFSA seeks to ensure that investment firms are better prepared to recover from severe stress situations. The Authority will also be in a better position to protect consumers by adequately managing systemic risk and hence, lessening the risk of failure of investment firms. Through this compliance outcome, the MFSA would also be contributing to the enhancement of financial stability by assisting in the development of preventive policies to mitigate the risks identified. This effort, in line with the BRRD, focuses on verifying that firms possess robust and actionable tools to stabilise their operations and mitigate risks during periods of financial distress. By doing so, firms can enhance their resilience and reduce the likelihood of failure.

Outcome 4: Implementation of Control of Assets Regulation for Banks Holding a MiFID Licence and Holding Clients' Assets as Ancillary Service

The MFSA plans to conduct a targeted review in this specific area to ensure full compliance with the Control of Assets Regulation under the Investment Services Act for these niche types of entities. This review will focus on assessing whether these entities have implemented effective controls and processes to safeguard client assets. The findings from this exercise will play a critical role in confirming that client assets are appropriately segregated from the firm's own funds and are managed in accordance with regulatory expectations. The aim of these Rules and Legislation is to ensure that clients' assets are safeguarded and protected in the event of an insolvency of the supervised entity through segregation principles, as these monies would not form part of the insolvency estate in an eventual insolvency.

Company Service Providers

Outcome 1: Adequate Risk Management Function

The MFSA shall be focusing on the effectiveness and resilience of the Risk Management function within the selected CSPs, since CSPs are particularly vulnerable to several risks, given the nature of their business. The Authority will be focusing on the independence, standing, type of risk/s and remedial action being taken by the Risk Management Functions. Risk management includes oversight over various risks including financial and operational risks therefore a proper risk management function would be able to prevent and mitigate risks of business failure. The MFSA will continue to ensure that CSPs are adequately managing their risks and that they operate in a sound manner, safeguarding overall market integrity.

Outcome 2: Adequate Oversight when Arranging for Other Persons to Act as Directors and/or Company Secretaries

When arranging for the provision of directorship and company secretarial services, CSPs must carry out effective oversight over such persons to ensure that these individuals are adequately carrying out their duties and obligations, given that the entities to which such persons will offer directorship and/or company secretarial services , would not be authorised by the Authority. Therefore, the MFSA will delve into the quality and type of monitoring being carried out by selected CSPs when offering these services in order to ensure that the expected level of oversight by CSPs is being duly carried out. The MFSA seeks to continue ensuring that the individuals being appointed on Boards of entities carrying out business in Malta, and being serviced by CSPs, are fulfilling their fiduciary obligations appropriately for the business to operate in a sound manner which allows for better safeguarding of market integrity.

Cross-Sectoral Supervisory Outcomes

Financial Crime Compliance

Outcome 1: Assessing the Role of the Money Laundering Reporting Officers in the Financial Services Sector

As part of its remit, the MFSA is responsible for scrutinising and approving supervised entities' key function holders. As such, the MFSA remains steadfast in upholding high standards for both its supervised entities and anyone holding prominent roles within the entity's control frameworks, which includes MLROs.

Financial crimes such as money laundering and the funding of terrorism ('ML/FT') present a tangible threat to the stability of the Maltese financial services sector. This notion drives the MFSA's prioritisation of ensuring that individuals intending to take on an MLRO position are equipped with the necessary knowledge and expertise. Nevertheless, the MFSA's oversight over MLROs does not cease once an individual is approved but considers financial crime related matters throughout the supervisory lifecycle of its supervised entities. Given their role, MLROs also fall within the remit of the MFSA's supervisory interactions as the Authority must ensure that anyone appointed to the said role continues to have the necessary knowledge, expertise and resources to address ever evolving threats in this area.

Supervised entities being unable to control their financial crime related risks via adequate controls would leave the financial services industry, its operators, their customers, and the jurisdiction in general, vulnerable to the adverse consequences of financial crime. As such, the rationale behind the selection of this outcome is to provide guidance to prospective MLROs, incumbent MLROs, and the supervised entities on governance practices that can facilitate their effective compliance and ultimately complement the financial services sector's efforts towards fighting financial crime and ML/FT.

Outcome 2: Robust Framework to Minimise Risks relating to: Terrorism Financing, Proliferation Financing, Sanctions

Terrorism financing and proliferation financing have become more sophisticated and complex making it crucial for financial institutions to detect and prevent the flow of illicit funds that support these activities. Additionally, the evolving geopolitical landscape and the ever-increasing regulations have heightened risks of sanctions circumvention. As such addressing TF/PF/TFS is crucial to maintain global security, comply with evolving regulations and prevent illicit activities that threaten economic and political stability.

This outcome is selected to primarily gauge the efforts within the MFSA's supervised entities with respect to Funding of Terrorism, Proliferation Financing and Targeted Financial Sanctions. The exercise will be targeted towards FIs and CASPs, which are two of the major players within the Maltese financial industry. In fact, the relatively complex nature of virtual financial assets have made these entities more susceptible to being exploited by criminal networks seeking to fund illicit activities and evade sanctions. Considering this, the Authority's responsibility in supervising and monitoring the mitigating measures being adopted by the entities within these sectors serves the fulfilment of two of its core mandates; safeguarding the integrity of financial markets and consumer protection.

Conduct Supervision

Outcome 1: Adequate Sales Process of Tied Insurance Intermediaries

TIIs are considered to be a significant distribution channel of insurance products in Malta and accordingly, it is paramount that they act in line with their regulatory requirements to ensure the best interest of their customers. Given this, and as part of the Authority supervisory priorities relating to consumer protection, the MFSA intends to carry out supervisory interactions with a wide range of TIIs in order to assess their adherence with respect to their regulatory requirements. These supervisory interactions will focus on the regulatory requirements relating to the sales process including demands and needs testing and appropriateness testing in the case of sales of insurance-based investment products. Moreover, the relevant requirements relating to pre-contractual disclosures, product distribution arrangements, and record keeping will be assessed. The MFSA will continue to enhance its efforts to successfully protect consumers in the financial services sector.

Outcome 2: Adequate Review of Marketing Material by the Compliance Officer
Adverts relating to financial products and services need to be fair, clear and not misleading to ensure that clients are not enticed to purchase products which do not meet their objectives. The MFSA will continue to further its efforts in ensuring the necessary supervision from a conduct perspective, and in turn, observe tangible improvements with the achievement of this outcome. In view that marketing communications through social media, electronic mail and cold calling can reach a wide audience very rapidly when compared to traditional media, the MFSA will continue to monitor the marketing activities of local regulated entities very closely, on an ex-post basis.

Supervised entities are expected to have internal processes and procedures in place to ensure that the literature included in their marketing material helps consumers understand the message being conveyed by advert/communication in order to be able to make an informed decision. In particular, supervised entities should make certain that the appropriate level of detail is included in a marketing communication, giving the same prominence to the level of risks attached to the product as well as the benefits. In terms of the applicable conduct of business Rules, Compliance officers are required to review and approve adverts issued by entities licensed under the Insurance Distribution Act, the Insurance Business Act and the Investment Services Act.

In this area, the Authority will be assessing the internal approval processes and procedures of entities regulated under the abovementioned Acts with a view to establish how such entities ensure that their internally approved marketing communications adhere by the applicable Conduct of Business Rules. This outcome is in line with the Authority's supervisory priorities relating to consumer protection and market integrity.

Outcome 3: Compliance with Complaints Handling Procedures

Clients are to be treated fairly when carrying out their financial transactions and, when not satisfied with the service provided, they should have a clear recourse to an effective complaints mechanism offered by the supervised entity. Supervised entities are also expected to investigate these complaints effectively and offer redress to clients where they consider this is due to them. The MFSA is focusing on this outcome to ensure that licence holders have such procedures in place and that these are being followed on an ongoing basis. This outcome is in line with MFSA's objectives of upholding financial market integrity by continue to ensure investor and consumer confidence therein, and of consumer protection.

Outcome 4: Assessment of Costs and Charges for Retail Collective Investment Schemes and Pension Products

The MFSA considers that products such as collective investment schemes and pension products should be structured in such a way as to offer value for money to clients. This implies that costs should be reasonable and should not be structured in a manner as to offset any potential gains which the product may endure through its underlying investments. The Authority will investigate the cost structures of certain products to ensure the provision of good value for money to their clients. This is in line with the Authority's objectives of investor protection and market integrity.

Supervisory ICT Risk & Cybersecurity

Outcome 1: DORA - Day 1

In 2025, the MFSA will set off another compliance outcomes-based supervision cycle in the field of cybersecurity, in line with the ESAs' DORA "day one" supervisory priorities and expectations. In the past two years, the MFSA has published several material in anticipation of DORA, including aligning its 2022, 2023, and 2024 supervisory engagements to reflect requirements stemming from this legal instrument and its accompanying "level 2" texts. To achieve this outcome, the MFSA will carry out a set of supervisory interactions that touch upon many aspects of DORA to assess supervised entities' implementation of the requirements stipulated within DORA.

Conclusion

In this document, the MFSA further explains its compliance outcomes-based approach to supervisory engagement, while providing an update on the supervisory work done in 2024. While the document aims to provide visibility on the key areas of supervisory focus for the upcoming calendar year, the priorities outlined in this document should be viewed as forming part of a wider array of activities that the Authority is performing during 2025.

As part of the MFSA's continuing commitment to the highest standards of effective supervision, the MFSA is working to achieve the key compliance outcomes that the Authority has set for 2025. These compliance outcomes comprise of standards that the Authority seeks to achieve in its operations and/or standards that are in turn expected from supervised entities. These compliance outcomes will be capable of being evidenced and measured by data that the MFSA collects through its supervisory tools and interactions. The MFSA will continue to enhance its supervisory expertise through the application of regulatory knowledge gained through initiatives such as the ESG TSI project. Moreover, the MFSA will continue to promote supervisory convergence across the EU by collaborating with foreign NCAs to maximise effective cross-border supervision. Supervised entities are expected to discuss the contents of this document within their board of directors, or equivalent administrative body, and to examine the implications on their business activities.

Malta Financial Services Authority

Triq L-Imdina, Zone 1

Central Business District, Birkirkara, CBD 1010, Malta

communications@mfsa.mt

www.mfsa.mt