

# Annual Report 2010

**MFSA**

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MALTA FINANCIAL SERVICES AUTHORITY

## CONTENTS

Chairman's Statement	3
The Authority	7
Market Overview	15
Supervision and Compliance	37
Legislative and Regulatory Developments	47
Licensing	59
Development Overview	73
Appendices	87



## CHAIRMAN'S STATEMENT



The Malta Financial Services Authority (MFSA) is pleased to present the 2010 annual report on its activities and operations. 2010 was a year of steady progress for Malta's financial services industry, with a regular flow of new licences being issued in almost all sectors throughout the year.

The number of licences for investment services companies and collective investment schemes continues to show steady growth. The first licences were issued in the pensions sector and the Maltese Qualifying Recognised Pensions Schemes (QROPS) were approved by the UK's tax authorities, a move that opened up parts of the valuable UK pensions market to Malta.

Employment in the industry grew again. It is worth noting that we have had uninterrupted year on year jobs growth in financial services since Malta joined the EU in 2004.

The reasons for such growth are many and complex, but one thing is certain; Malta's economic stability gives international financial business valuable and genuine comfort. At no time was this more obvious than during the second half of 2010 when the world was faced with a crisis of confidence in the Euro, triggered by debt financing emergencies in a number of Eurozone states. Malta, which has a sovereign debt position more robust than many nations, played its part in supporting the Euro and thus in helping to avoid what would have almost certainly have been a devastating economic and political event for the world.

Malta's stability has not gone unnoticed and in 2010 the World Economic Forum's Global Competiveness Index put the country at No.10 for the soundness of its banks and No.11 for financial market development. These figures put Malta in the very front rank of world financial centres and greatly add to our global reputation.

As the year closed, the world's economic picture was extremely mixed. The Asian economies, with the exception of Japan, Australia and Germany returned to almost boom conditions, while the USA and the UK remained flat.

Sometimes the rhetoric around the rise of the BRIC economies can disguise the simple truth that the US and the UK are still by far the biggest financial services providers in the world. Their rapid return to economic health is of fundamental importance to the global competitiveness of the Western economies. Perhaps more important to global stability is that while new economies win, old economies should stay strong and dynamic.

Nonetheless, the newly rich economies offer great opportunities for Malta and none more so than China. China provided one of the highlights of the MFSA's year when a memorandum of understanding (MOU) was signed between the MFSA and the China Banking Regulatory Commission and the China Securities Regulatory Commission. MOUs are the keystones to giving the finance sector added confidence when developing new markets; when regulators have formalised between them a broad set of mutually acceptable procedures, the door can open more quickly to successful mutual business for the countries involved.

For the MFSA and for financial regulators across the EU, 2010 was a demanding and endlessly

busy year as the whole of the Union prepared for the introduction of the three new financial supervision bodies, the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority, set up by the EU in the wake of the global crash. All three of the new bodies formally started work on 1st January 2011 and will work closely with a fourth body, the European Systemic Risk Board, which began its work in late 2010.

These are organisations of the highest importance and each has wide powers, though all have the primary function of taking an EU-wide view of the application of directives and regulations, of securities markets, financial products and all the critical sectors of the finance industry to try and identify and forewarn of potential systemic problems. However, the status, power and authority of national regulators and national legislatures are unchanged. It is the view of the MFSA that the new EU regulatory regime is a necessary and timely response to a clear need to strengthen the Union's financial stability machinery. The MFSA looks forward to working with the new bodies and helping them evolve, whilst avoiding duplication of functions and bureaucracy.

As part of their responsibility to maintain high standards across the EU and bring greater consistency to procedures and processes, it is likely that the new bodies will carry out peer review analyses of member state regulatory and supervisory bodies. They will not start with a blank sheet and in Malta's case it has been the policy of the MFSA to have independent assessments of its regulatory activities undertaken every two to three years by highly qualified, non-Maltese specialists. These regular reviews are in addition to those done by official regional and global organisations such as the IMF and the OECD.

The Authority firmly believes that regular independent measurement is of great value to benchmarking the MFSA against other leading regulatory bodies, keeping strategy in line with global best practice and to putting facts behind the assertion that Malta is a good and fit and proper place to conduct financial business.

In 2010, the Board of Governors decided to commission an audit that would be an independent assessment of the MFSA's regulatory structures along the lines as the IMF/World Bank Financial Stability Action Programme. A team of experts normally used by the IMF/World Bank to review the regulatory structures in terms of Basle Core Principles for banking, IOSCO Principles for securities and IAIS Principles for insurance, was led by Mr Piero Ugolini former Assistant Director at the IMF who was also Mission Chief for the IMF/World Bank review of the MFSA in 2002/2003. An abridged and a long version of the report are available on the MFSA website. The result of the assessment confirmed that the MFSA operates at or in excess of global best practice and rates in the top quartile for compliance.

As Malta's finance industry has expanded, as the country has remained attractive to blue-chip finance businesses from all over the world and as the obligations placed on regulators have grown, particularly following the global crash in 2007, the MFSA has had to increase its own staff numbers. In 2010 there was a net increase of 19, bringing total staff numbers to 168.

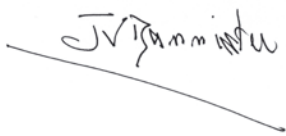
The work of financial regulators and supervisors is highly specialised and few, if any, countries have a ready pool of skilled regulatory talent waiting for suitable employment. Malta is no different and it is for that latter reason and to help ensure that the country can prudently keep pace with the speed of growth in finance that we lay such store on continuing education and

training for our staff. 35 members of staff studied for degrees or diplomas in 2010 and staff from all levels took part in training programmes locally and overseas.

Our aim at the MFSA has always been that our professional staff should rank among the best trained and best qualified. It is only through maintaining our commitment to continuing education and training that we can keep the confidence of consumers, our government and parliament, our EU partners and the finance industry worldwide. Continually encouraging career development also helps us retain highly qualified and experienced people which greatly benefits all our stakeholders.

The finance industry has continued to expand, new businesses continue to arrive on a regular basis and employment in the sector has once again grown. The future continues to look bright, but we should be fully conscious of the many threats to global economic stability that currently exist. These include high inflation rates in many important countries, volatile commodity markets, rising food prices and enormous political and economic changes across the globe. In a troubled world it is as always vital that our values of integrity, honesty and service are the values that should endure and help cement Malta's reputation as a world leading financial services jurisdiction.

In concluding, I wish to thank and to pay tribute to all of the members of staff at the MFSA for another year of dedicated hard work and to thank my fellow governors for their support and counsel.

A handwritten signature in black ink, appearing to read 'J V Bannister', with a long horizontal line extending to the right from the end of the signature.

J V Bannister



## THE AUTHORITY

### BOARD OF GOVERNORS



*Left to right standing:* Mr. Michael C. Bonello, Dr. Anton Felice, Dr. Louise Ellul Cachia Caruana, Mr. Frank Xerri de Caro, Prof. Joe V. Bannister, Mr. Albert A. Attard, Dr. Cynthia Scerri Debono, Dr. David Fabri

#### Chairman

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

#### Members

Mr. Albert A. Attard  
Mr. Michael Bonello M.A (Oxon), FCIB  
Dr. Louise Ellul Cachia Caruana LL.D, M.A (Fin. Serv.)  
Dr. Anton Felice, LL.D  
Dr. Cynthia Scerri Debono, LL.D  
Mr. Frank Xerri de Caro, ACIB

#### Secretary

Dr. David Fabri, LL.D

The Board of Governors is also the Listing Authority for the purpose of the Financial Markets Act.

## SUPERVISORY COUNCIL

### Chairman

Dr. Andre Camilleri LL.D, Dip. Econ. & Ind. Law  
**Director General**

### Members

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

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

Ms. Cristina Parlato Trigona B.A (Hons.) Accty., M.Sc, CPA, ASI  
**Director – Securities and Markets Supervision Unit**

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

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

### Secretary

Ms. Alexandra Filletti B.Com. (Hons.) Banking & Finance, MBA (Warwick)

## BOARD OF MANAGEMENT AND RESOURCES

### Chairman

Mr. Joseph Demanuele FCCA, FIA, CPA  
**Chief Operations Officer**

### Members

Mr. Godfrey Farrugia  
**Deputy Director – Information and Communication Technologies Unit**

Mr. Paul Vella B.A (Hons.) Bs. Mgt.  
**Director – Human Resources Development Unit**

Mr. Charles Zammit D.B.A., M.C.M.I., A.A.I.A.  
**Director – Administration Unit**

### Secretary

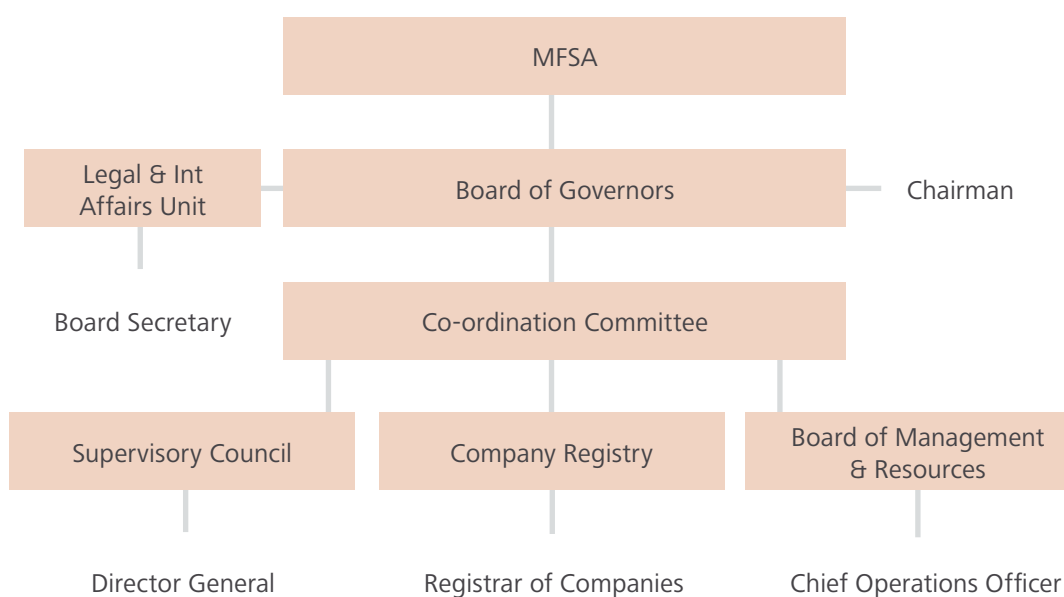
Mr. George Spiteri Dip. Social Studies (Industrial Relations), MSc. in Training and HR  
Mgt. (University of Leicester)

## ORGANISATION

The Malta Financial Services Authority (MFSA) was established by law in 2002. 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 and trustees. The MFSA also incorporates the Registry of Companies and is responsible for the admissibility to listing on recognised investment exchanges.

The MFSA is an autonomous body constituted by the Malta Financial Services Authority Act (Cap. 330), and reports annually to Parliament. The main organs (Chart 1) 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.

Chart 1: MFSA Organisation Chart



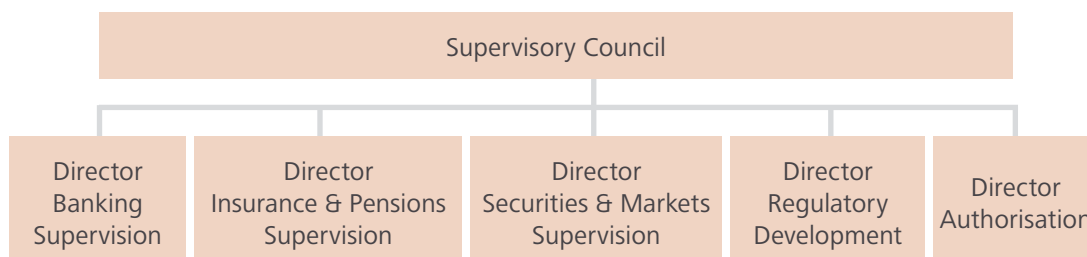
The Legal and International Affairs Office is one of the statutory organs of the Authority and some of its primary functions are set out in the Act. These include the provision of legal advice and assistance to all the organs of the Authority. In addition to serving as secretary to the Board of Governors 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 and international affairs.

Chart 2: Composition of the Co-ordination Committee



The Supervisory Council is composed of the Authorisation Unit, the Regulatory Development Unit and three Supervisory Units namely the Banking Supervision Unit, the Securities and Markets Supervision Unit and the Insurance and Pensions Supervision Unit. The Supervisory Council is chaired by the Director General.

Chart 3: The Supervisory Council



### Regulatory Units:

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

**Insurance and Pensions Supervision Unit:** responsible for the supervision of insurance companies, insurance intermediaries, insurance management companies and pension schemes.

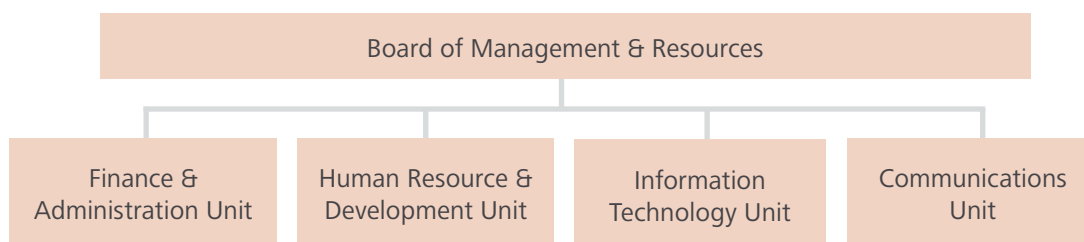
**Securities and Markets Supervision Unit:** responsible for the supervision of investment services companies, collective investment schemes, fund management and related fund services operations, admissibility to listing on recognised investment exchanges, trustees and oversight of financial markets.

**Regulatory Development Unit:** responsible for the implementation of cross-sectoral policies and regulatory developments.

**Authorisation Unit:** responsible for licensing of all financial services entities.

## MANAGEMENT UNITS

Chart 4: Composition of the Board of Management & Resources



**Human Resources and Development Unit:** responsible for employee welfare and personnel development through training and other initiatives. 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.

**Information Technology Unit and Administration and Finance Unit:** provide operational support to the other Units and are responsible for managing the Authority's resources efficiently.

**Communications Unit:** responsible for the preparation of corporate publications, media management and event management. The Unit is also responsible for the development and maintenance of the Authority's internet and intranet site.

The Board of Management and Resources is chaired by the Chief Operations Officer.

## CONSUMER AFFAIRS

The Consumer Complaints Unit investigates complaints from private consumers arising out of any financial services transaction. The Consumer Complaints Manager is directly responsible to the Board but, where appropriate, cases may be referred to the Supervisory Council. The Unit is also responsible for consumer awareness and education.

## 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.

## LISTING COMMITTEE

The Listing Committee is appointed by the Board of Governors in terms of Article 14 of the Financial Markets Act (Cap. 345). In accordance with the Listing Rules, the Listing Committee is responsible for scrutinising applications prior to admission to listing and ensuring compliance with Listing Rules. The Listing Committee is chaired by Mr. David Pullicino and has as members Mr. Albert Attard, Mr. Saviour Briffa, Dr. Andre Camilleri and Mr. Paul Spiteri.

## THE EDUCATION CONSULTATIVE COUNCIL (ECC)

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

The ECC is chaired by Professor Charles J. Farrugia. It includes representation from the Human Resources Development Unit of the Authority, which also provides secretarial support, the Malta College of Arts Science and Technology (MCAST), the Guidance and Counselling Unit within the Department of Education, the Malta International Training Centre (MITC), the Institute of Financial Services Practitioners (IFSP), the Institute of Directors (Malta Branch) (IOD), the Society of Trusts and Estate Practitioners – Malta (STEP), the Institute of Legal Studies (ILS), the Institute of Financial Services – Malta (IFS), and the Malta Institute of Accountants.

## CORPORATE SOCIAL RESPONSIBILITY

During the year, the Authority continued to play an active role in supporting worthy causes in the cultural and social spheres of society. The Authority continued providing financial support to the Fondazzjoni Patrimonju Malti.

The Children's Foundation established by the Authority in 2008 continued providing support to underprivileged children. The Board of the Foundation is composed of Mrs. Sonia Camilleri as Chairperson, Professor Joe Bannister, Mr. Marcel Pisani, Ms. Josephine Baldacchino and Mr. George Spiteri. Mr. Robert Aquilina acts as Board Secretary.

During 2010, the Foundation provided financial assistance to various projects in a number of charitable institutions namely, Children's Homes run by the Church, the Parish of St. Francis of Assisi, the Renal Unit at the Mater Dei Hospital, and also to help a number of families who required assistance for specific reasons related to their children.



## MARKET OVERVIEW

A number of economies around the world started to recover from the global financial turmoil late in 2009 and continued to register improvements during 2010, although the environment still remained very unstable and complex. A few countries, including Malta, were less affected by the crisis and continued to experience the same levels of growth in most economic sectors as registered in previous years.

The Malta Financial Services Authority registered growth in the number of new licences issued in 2010 in all areas of activities. Three new credit institutions and six new insurance companies were licensed. Significant increases were registered in the number of professional investor funds and investment services companies. During 2010, the Authority also authorised the first occupational retirement schemes under the Special Funds Act.

The Gross Value Added (GVA) in the Financial Intermediation sector, which was almost 5.5 per cent of the total Gross Value Added in 2009 or around €47,000 per capita per employee, increased to 7.5 per cent in 2010 or around €66,000 per capita per employee.

Employment in the financial sector in Malta continued to increase during the year. Figures released by the National Statistics Office show that the number of full-time gainfully occupied in direct financial intermediation services stood at 5,871 in October 2010 or about three per cent more than October 2009. The number of persons employed on a part-time basis in the sector was 535 in October 2010 or around one per cent less than October 2009. These figures only represent the financial intermediation sector and do not include the increase in employment in related professional services and business activities which have also been significantly expanding over the same period.

Malta's financial services sector continues to improve on its positive performance achieved in recent years. The World Economic Forum's Global Competitiveness Index 2010 ranked Malta 11th out of 139 countries for its financial market development, up by two notches from the 13th position in 2009. The banking system in Malta was reported to be the 10th soundest in the world in 2010, three notches up from the previous year. Key performance indicators for the financial services sector also confirm the sector's standing as a leading innovator in the Maltese economy.

## BANKING

### General Overview

The international banking market continued to recover in 2010 despite having to face a number of new and recurring challenges along the way. For the first time since the start of the global financial turmoil in 2007, the international balance sheets of Bank for International Settlements (BIS) reporting banks expanded during the first quarter of 2010. Nevertheless, growth did not persist in the second quarter where a drop of 0.02 per cent was registered.

The sovereign debt crisis that came to a head in several euro area economies and the fear that this could trigger the collapse in the banking and financial system led European Governments, central banks and regulators to take emergency measures and triggered off a new round of negotiations on the longer term measures required to address the situation. Various banks saw their profit levels weakening while others

were required to take action by regulators to address their weakening capital levels. Funding also became an issue of major concern as the market turned more expensive with investors demanding high premiums for buying sovereign debt.

However, in spite of the international situation, conditions in the banking sector had registered a marked improvement by the end of 2010. The banking sector in Malta, which was less exposed to the international crisis, continued to perform strongly, registering an overall 21 per cent growth in the assets. Profits also increased though not at the same level recorded in 2009.

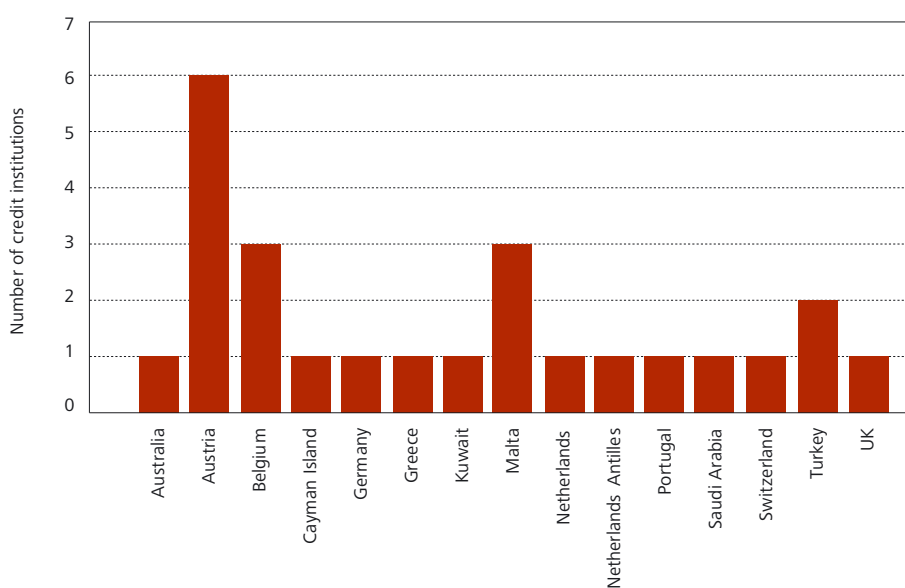
Earlier in 2010, the Committee of European Banking Supervisors (CEBS), in cooperation with the European Commission, the European Central Bank, and the national supervisory authorities, undertook an EU-wide bank stress test of selected banking groups.

The Malta Financial Services Authority in conjunction with the Central Bank of Malta carried out the stress test on one of the local banks which was amongst the sample of 91 European banks selected for this exercise. Other locally licensed subsidiary banks with foreign parents were also in the sample but were assessed with their parent institution by their home supervisory authorities. The overall result emanating from the study confirmed the resilience of the selected locally licensed bank and subsidiary banks.

### Credit Institutions

The Maltese banking sector consisted of 25<sup>1</sup> credit institutions, a net increase of two institutions over 2009. Three institutions are majority Maltese-owned while 22 are foreign owned credit institutions. Fourteen of the foreign credit institutions are from EU countries, six are from non-EU countries and another two are branches from non-EU countries.

Chart 5: Number of credit institutions by country of origin of majority shareholding



Source: Malta Financial Services Authority

<sup>1</sup> In addition to these, a Branch of an EU bank, Credit Europe Bank N.V. Malta Branch, also operates in Malta through the freedom of establishment.

### Branch Network and Electronic delivery channels

The number of bank offices and branches throughout Malta increased from 133 in 2009 to 136 in 2010. The number of ATMs reached 181 while there were 670,300 cards with a cash function.

Table 1: Distribution of Bank Offices, ATMs, POS terminals, and payment cards in Malta

	2008	2009	2010
Bank offices	129	133	136
ATMs	166	179	181
POS terminals	10,297	11,438	12,000
Payment cards	606,906	640,922	670,300

Source: ECB, Malta Financial Services Authority

The 2010 figures available of a number of credit institutions were still unaudited at the time of presentation of this report and maybe subject to change.

### Capital Requirements Ratio

The capital requirements ratio of the aggregate banking sector, which is defined as the percentage of the aggregate banks' total own funds to their total risk-weighted assets, increased from 24.34 per cent in 2009 to 57.06 per cent in 2010. This reflects an increase of 32.72 percentage points over the period 2009 – 2010. This substantial increase was largely attributed to new credit institutions licensed in 2010. As a result, the total own funds increased significantly over the period 2009 – 2010, being the major contributing factor for the increase in the ratio.

Aggregate original own funds expressed as a percentage of total risk-weighted assets increased from 23.47 per cent to 54.69 per cent over the period 2009 - 2010 resulting in an increase of 31.22 percentage points. As already highlighted above, the increase was largely attributed to new credit institutions licensed in 2010.

Table 2: Capital requirements ratio and ratio of original own funds

	2008	2009	2010
Capital requirements ratio (%)	17.86	24.34	57.06
Original own funds to risk-weighted assets (%)	16.17	23.47	54.69

Source: Malta Financial Services Authority

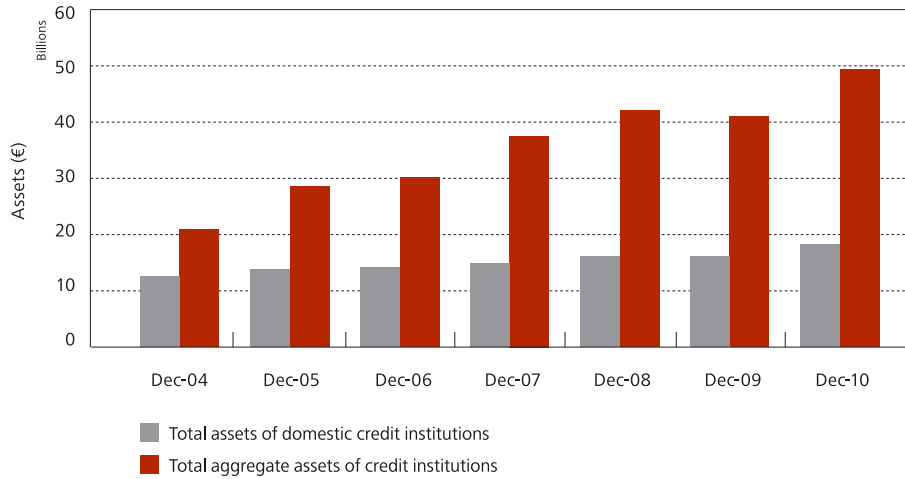
### Bank Assets

There was an increase of almost nine billion euros or 21 per cent in the total assets of the aggregate banking sector<sup>2</sup> in Malta over the period 2009 - 2010. As at end 2010, the total assets of the aggregate banking sector in Malta amounted to €49.5 billion. The assets of the domestic banking sector<sup>3</sup> also registered growth in 2010, from €14.6 billion in 2009 (or 35.9 per cent of the total assets of the aggregate banking sector) to €17.9 billion in 2010 (or 36.1 per cent of the total assets of the aggregate banking sector).

<sup>2</sup> The aggregate banking sector comprises of all 25 credit institutions licensed by the MFSA and the Malta branch of Credit Europe Bank N.V. which operates through the freedom of establishment.

<sup>3</sup> Domestic credit institutions denote institutions whose business is wholly or largely made up of domestic business.

Chart 6: Aggregate assets of the credit institutions against assets of domestic credit institutions



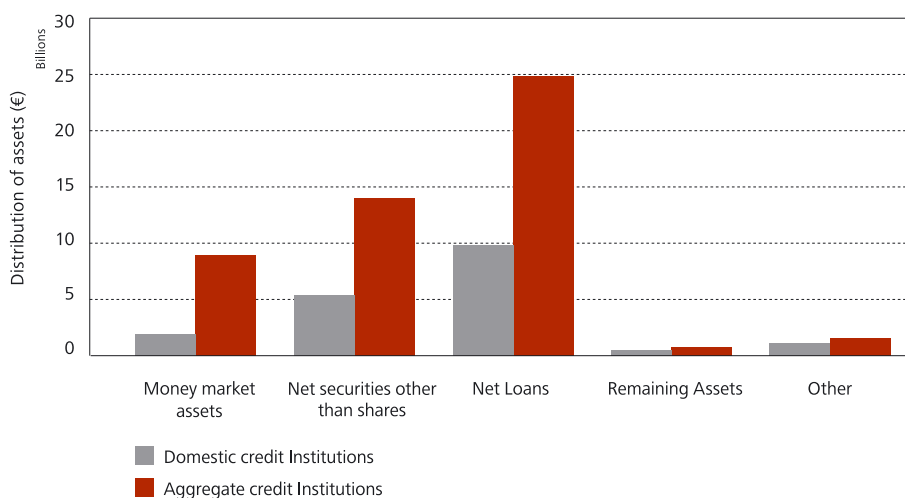
Source: Malta Financial Services Authority

The increase in assets, both in the domestic sector and the aggregate banking sector, is primarily related to new credit institutions which started operating during 2010 and a number of other credit institutions which reported growth in their assets.

### Distribution of Bank Assets

The distribution of bank assets in the aggregate banking sector was as follows: 'Net loans' contributed 50 per cent of the total assets distribution in 2010; five percentage points less than in 2009. In 2010, 'Net securities other than shares' had a share of 28.6 per cent and 'money market assets' contributed to 17.6 per cent of the total assets.

Chart 7: Distribution of assets of the aggregate banking sector against domestic banking sector in 2010



Source: Malta Financial Services Authority

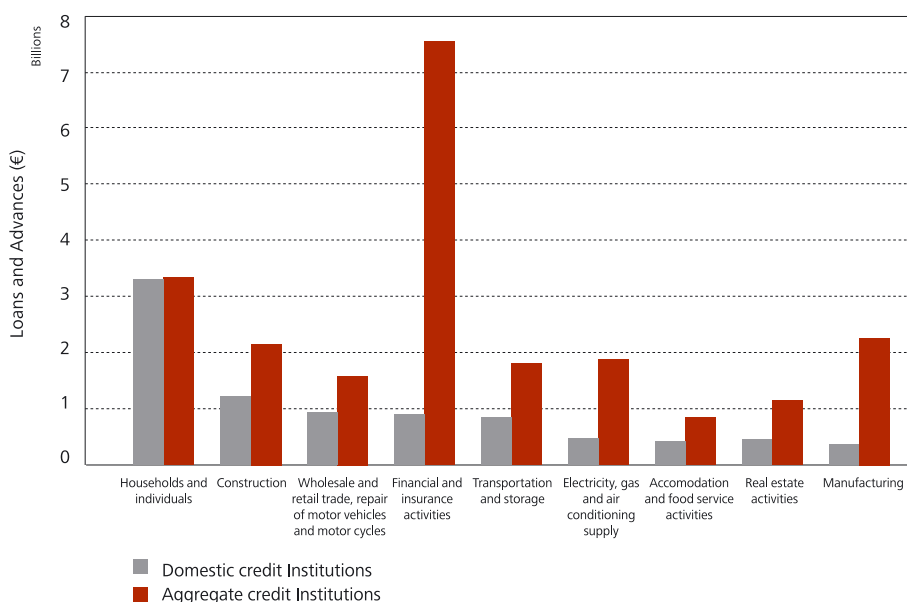
In the domestic banking sector, 'Net loans' also had the largest contribution with a share of 55.3 per cent of the total assets distribution in the domestic sector in 2010. 'Net securities other than shares' followed with a contribution of 28.2 per cent while 'money market assets' had the third largest distribution at 9.3 per cent of the assets in 2010.

### Loans and advances by sector

Loans and advances in the aggregate banking sector in Malta increased by 11.6 per cent over the period 2009 – 2010 after registering a drop of 13.7 per cent over the period 2008 - 2009. Over the same period, loans and advances in the domestic banking sector grew by 16.8 per cent compared to an increase of only 5.5 per cent over the period 2008 – 2009.

In 2010, 30 per cent of the loans in the aggregate banking sector were advanced to the *financial and insurance* sector. This was followed by the *households and individuals* sector with a share of 14 per cent and *manufacturing* sector with a contribution of almost 10 per cent. In the domestic sector, 34 per cent of the loans were advanced to *households and individuals*, 13 per cent were advanced to the *construction* sector followed by *wholesale and retail trade, repair of motor vehicles and motor cycles* sector at almost nine per cent.

Chart 8: Loans and advances by sector in 2010 (Domestic credit institutions against aggregate credit institutions)

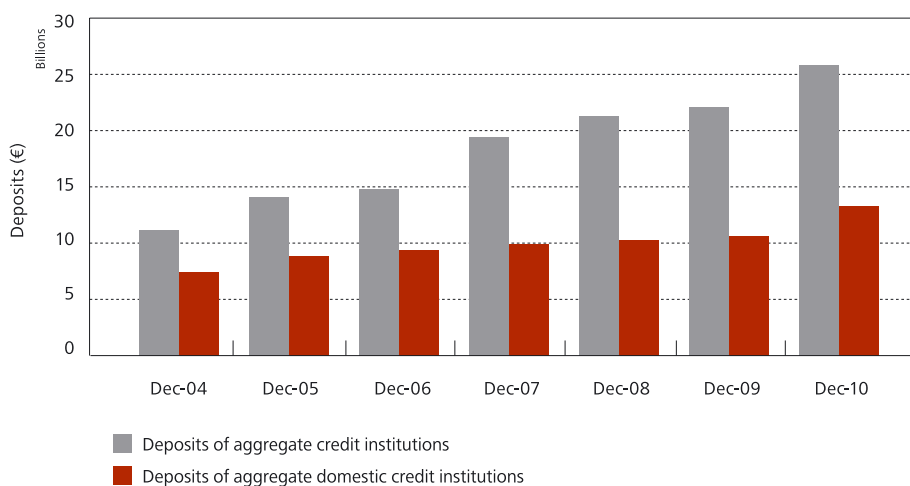


Source: Malta Financial Services Authority

The total deposits in the aggregate banking sector reached €26.1 billion in 2010. This represents an increase of almost four billion euros, or 18.6 per cent, over 2009 and an increase of 14.5 billion euros, or 124.3 per cent, over the period 2004 – 2010.

In the domestic banking sector, deposits reached nearly €12.8 billion in 2010, an increase of 20.5 per cent over 2009. This represents a share of almost 50 per cent of the total deposit liabilities in the aggregate banking sector, up by two notches from 2009. Over the period 2004 – 2010, deposits in the domestic banking sector increased from €7.6 billion to €12.8 billion, an increase of almost €5.2 billion or 70 per cent over the same period.

Chart 9: Bank deposits of aggregate credit institutions against domestic credit institutions



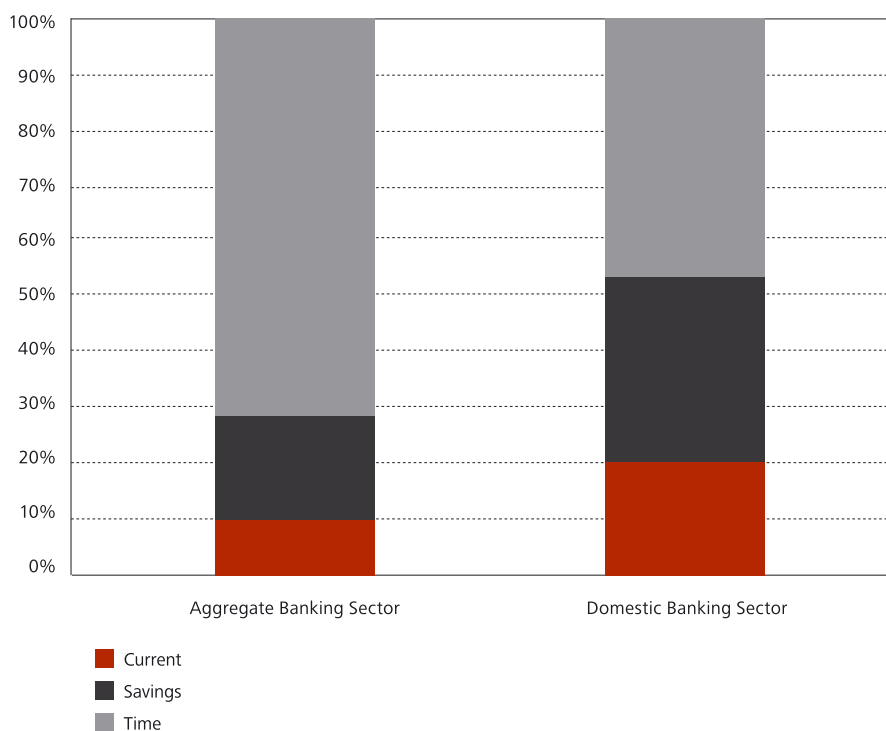
Source: Malta Financial Services Authority

The growth in the amount of deposits liabilities was mainly contributed by new credit institutions which started operating from Malta in 2010 and a number of credit institutions which reported growth in the amount of deposits.

### Distribution of bank deposits

The composition of deposits in the aggregate banking sector in 2010 was: 72.9 per cent were time deposits, 17 per cent were savings accounts while current accounts amounted to 10.1 per cent of total aggregate deposits.

Chart 10: Distribution of bank deposits in 2010 (Domestic credit institutions against aggregate credit institutions)



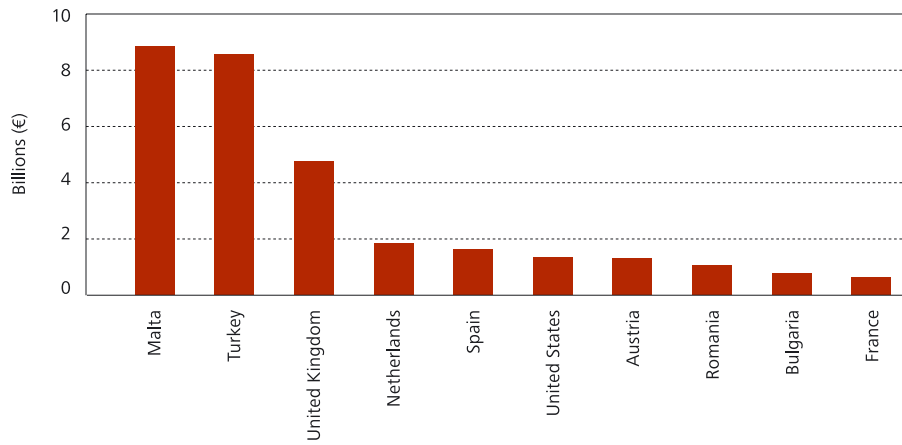
Source: Malta Financial Services Authority

The share in the composition of deposits in the domestic banking sector was different from the share in the aggregate banking sector. Around 45.9 per cent of the deposits were in the form of time deposits, 34.4 per cent were savings while almost 19.7 per cent were current deposits.

#### International assets (including loans) and liabilities (including borrowing and deposits)

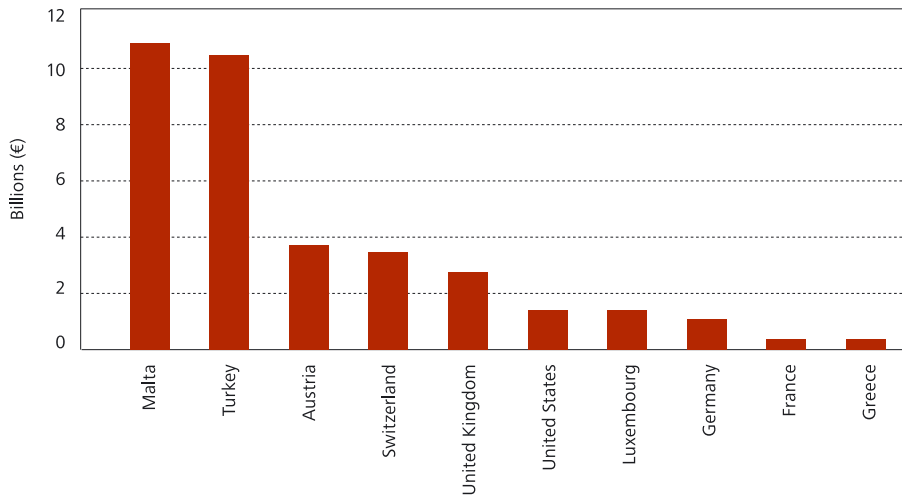
An analysis was carried out on the level of international lending and borrowing by credit institutions licensed in Malta in 2010. The top ten countries by bank borrowing/lending in the aggregate banking sector are illustrated in charts 11 and 12 respectively.

Chart 11: International lending and borrowing - Top ten countries by assets



Source: Malta Financial Services Authority

Chart 12: International lending and borrowing - Top ten countries by liabilities



Source: Malta Financial Services Authority

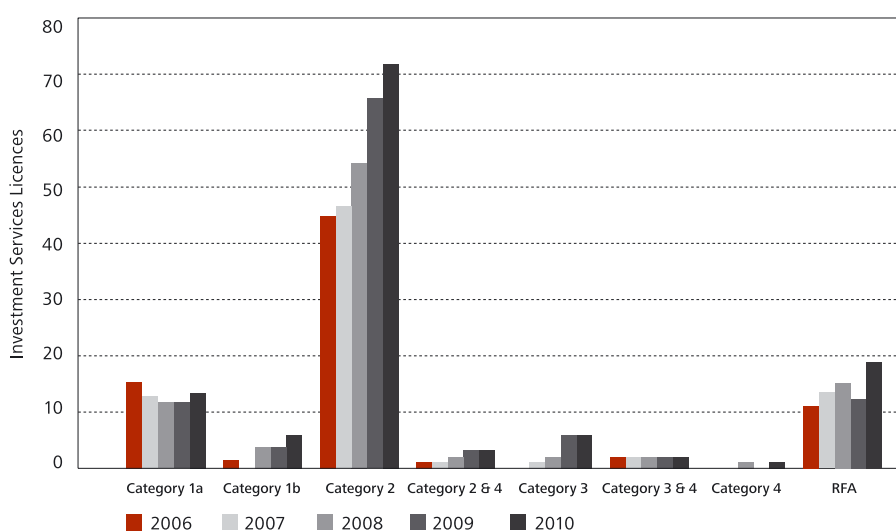
## SECURITIES AND INVESTMENT SERVICES

### Investment Services Licences

The number of investment services licences grew from 65 licences in 2006 to 102 licences in 2010, an increase of 57 per cent or 37 net additional licences over the period 2006 – 2010.

The Authority authorised 22 new investment services licences in 2010, the major increase being in Category 2 investment services licences. The number of authorised Category 2 investment services increased from 45 licences in 2006 to 73 licences in 2010, an increase of 62 per cent. There was also a significant increase in the number of recognised fund administrators with five new recognition certificates issued in 2010. The number of recognised fund administrators at the end of 2010 amounted to 18.

Chart 13: Investment services licences (2006 – 2010)

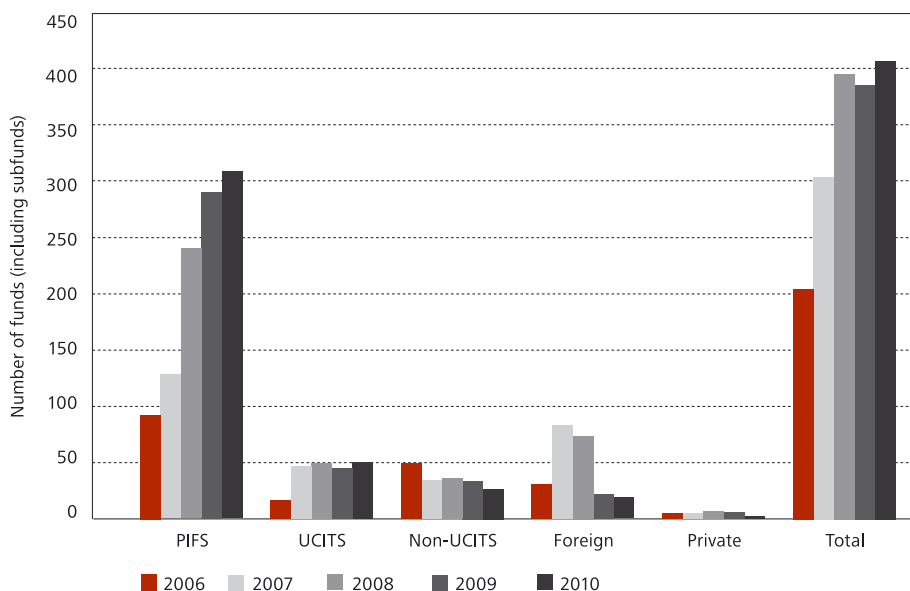


Source: Malta Financial Services Authority

### Collective Investment Schemes Licences

The total number of licensed collective investment schemes continued to increase, with the total number of active funds (including sub funds) growing to 410 in 2010. The Authority issued 108 new Collective Investment Schemes licences (including sub-funds), three more than the previous year. The majority of the new licences (102) were Professional Investor Funds. Another five licences were issued to UCITS funds while there was one new Recognised Private CIS.

Chart 14: Collective Investment Schemes licences (2006 – 2010)



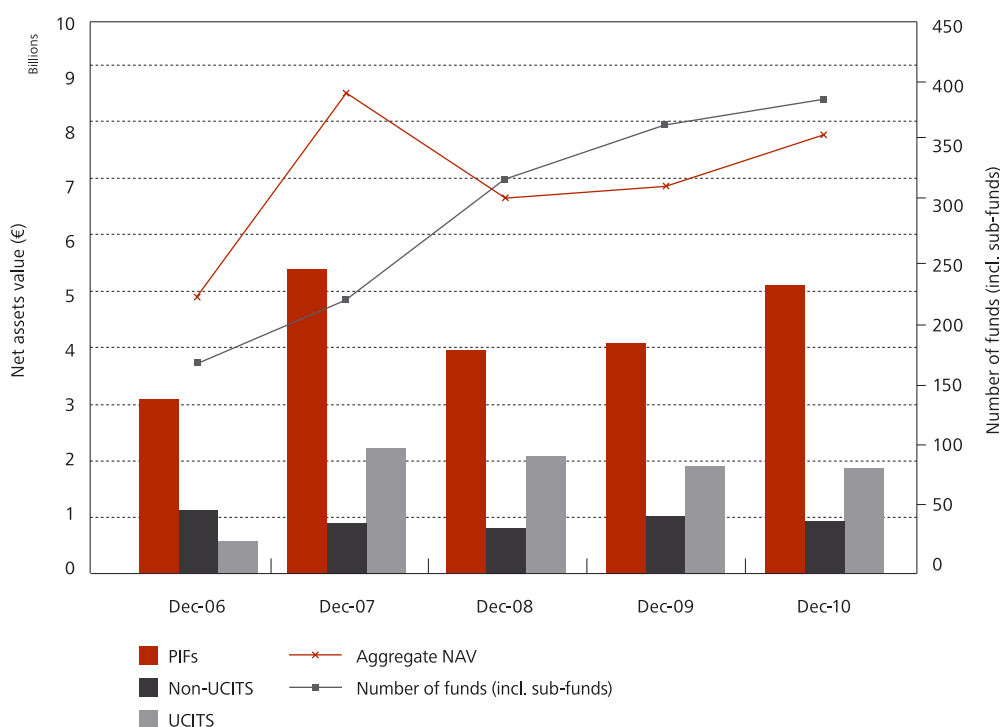
Source: Malta Financial Services Authority

Additionally, there is also a significant amount of non-domiciled funds which are being serviced by Malta based fund management and administration companies. During the year, the Authority accepted the surrender, on a voluntary basis, of 81 Professional Investor Funds licences, six Non-UCITS funds, four Foreign Based funds and two recognised private schemes.

#### Net Asset Value of Locally Based Collective Investment Schemes

The aggregate Net Asset Value (NAV) of Malta domiciled funds (PIFs, UCITS, and Non-UCITS) at the end of 2010 was just under €8 billion. This represents an increase of almost one billion euros or 13.5 per cent over 2009. The increase in the net asset value was generally contributed by a range of new funds which started operating during the year and a number of funds which are slowly recovering from the financial turmoil of 2008.

Chart 15: Net asset value of locally based CISs against number of funds (including sub-funds) during the period December 2006 – December 2010



Source: Malta Financial Services Authority

The NAV of Professional Investor Funds reached €5.2 billion at the end of 2010, an increase of almost one billion euro or 25 per cent over 2009. The NAV for these funds had reached its highest level (€6 billion) in mid-2008 but had declined by almost €2 billion or 33 per cent over the period in the second half of 2008 during the financial turmoil. The NAV started recovering late in 2009 and 2010 while the number of licensed PIFs continued growing all along despite the international crises.

The NAV in the UCITS category remained almost at the same level reached in 2009 despite an increase in the number of licenced UCITS. As at end 2010, the aggregate NAV was €1.8 billion.

### Management of Collective Investment Schemes

The number of Malta domiciled funds (including sub-funds) managed in Malta increased from 22 per cent in 2009 to 44 per cent in 2010 while the share of funds (including sub-funds) managed from outside Malta decreased from 74 per cent to 47 per cent over the same period. About ten per cent of the funds were self-managed funds in 2010.

Table 3: Management of locally based investment funds

	% number of funds (including sub-funds) as at end 2009	% number of funds (including sub-funds) as at end 2010
Self managed	4.1	9.6
Managed in Malta	22.1	43.8
Managed from outside Malta	73.8	46.6

Source: Malta Financial Services Authority

### Administration of Collective Investment Schemes

There was also a very significant increase in the number of Maltese funds (including sub-funds) administered by Malta-based administrators. This increased from 47 per cent in 2009 to almost 78 per cent in 2010. The number of funds administered from outside Malta decreased from nearly 53 per cent in 2009 to 22 per cent in 2010.

Table 4: Administration of locally based investment funds

	% number of funds (including sub-funds) as at end 2009	% number of funds (including sub-funds) as at end 2010
Self administered	0.2	0.5
Administered in Malta	47.3	77.5
Administered from outside Malta	52.5	22.0

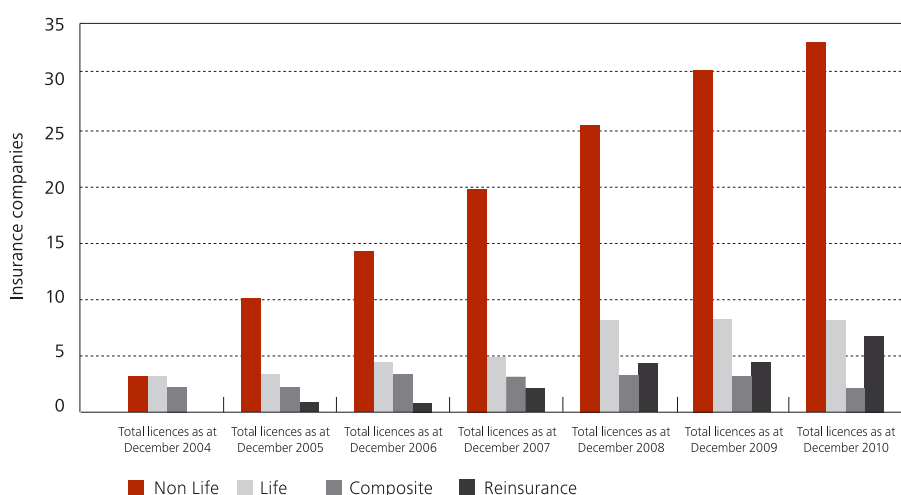
Source: Malta Financial Services Authority

## INSURANCE BUSINESS

### The Insurance Sector

The insurance sector in Malta continued expanding during 2010 with the authorisation of six new insurance undertakings in terms of the Insurance Business Act. As at end 2010, there were 50 insurance undertakings providing insurance services across 27 EU countries and beyond, five more than the previous year.

Chart 16: Insurance companies (2004 – 2010)



Source: Malta Financial Services Authority

As at end 2010, there were 33 authorised non-life insurance companies, eight life insurance companies, two composite and seven reinsurance companies. These figures include ten affiliated insurance companies and four protected cell companies incorporating 13 cells.

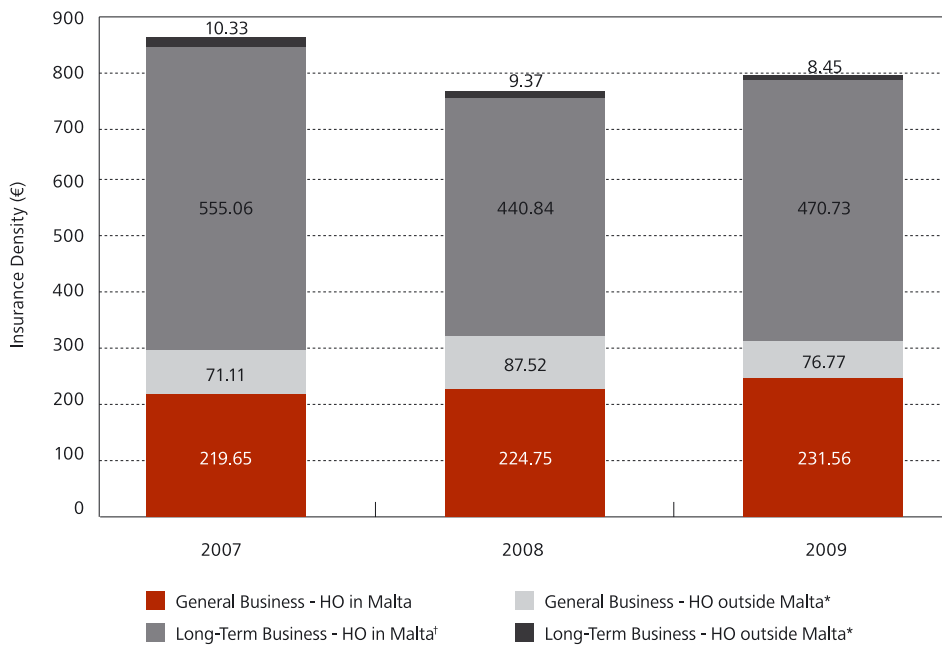
Audited figures with respect to the volume and segmentation of business for 2010 have to be submitted to the Authority by 30 June 2011. Accordingly, at the time of presentation of this report, the figures available were those received for the year 2009.

### Insurance Density

The insurance density, which is defined as the premiums written with respect to risks and commitments situated in Malta on a per capita basis, has increased substantially in the long term business but slightly declined in the general business over the period 2008 - 2009.

A per capita average of €310 was spent on general business insurance in 2009. This represents a decline of less than one per cent over the previous year where €312 was spent on non-life insurance. The insurance density in the long term business increased in 2009 where, on a per capita basis, an average of €480 was spent. This represents a growth of almost seven per cent over the previous year, where an average of €450 was spent on life insurance in 2008.

Chart 17: Insurance density with respect to risks and commitments situated in Malta (2007-2009)



\* refers to non-EU/EEA insurers authorised under the Act and EU/EEA insurers carrying out business in Malta under the right of establishment.

† Long-term business includes investment contracts without discretionary participation features.

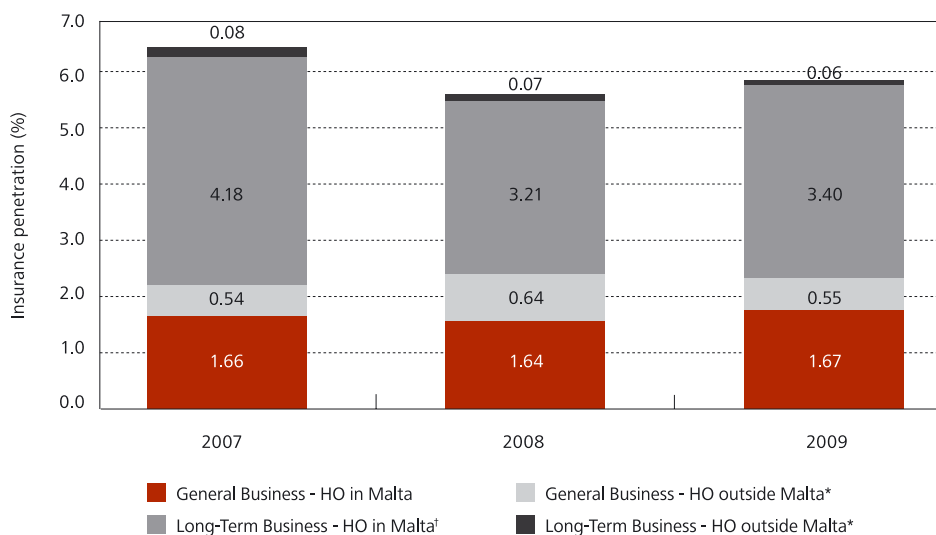
Source: Malta Financial Services Authority

### Insurance Penetration

The insurance penetration rate, which is measured as the premiums volume with respect to risks and commitments situated in Malta as a share of the GDP, increased slightly in 2009 over the previous year. A penetration rate of 5.7 per cent was measured in 2009 against the 5.6 per cent registered in 2008.

The life insurance penetration rate increased from 3.28 per cent in 2008 to 3.46 per cent in 2009. The rate decreased slightly in the non-life insurance, from 2.28 per cent in 2008 to 2.22 per cent in 2009.

Chart 18: Insurance penetration with respect to risks and commitments situated in Malta (2007-2009)



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

Source: Malta Financial Services Authority

### Financial strength and performance

The solvency cover, that is the ratio of available capital to required regulatory capital, continued to diminish in 2009, possibly as a result of the financial crisis. For the general business undertakings, the solvency cover has dropped from 460 per cent in 2007 to 320 per cent in 2009. Over the same period, the solvency cover decreased from 228 per cent to 199 per cent for undertakings writing long term business. For reinsurers, the solvency cover decreased from 501 per cent in 2007 to 496 per cent in 2009 after increasing to 772 per cent in 2008. Table five shows the solvency covers split by type of undertaking.

Table 5: Solvency covers (2007 – 2009)

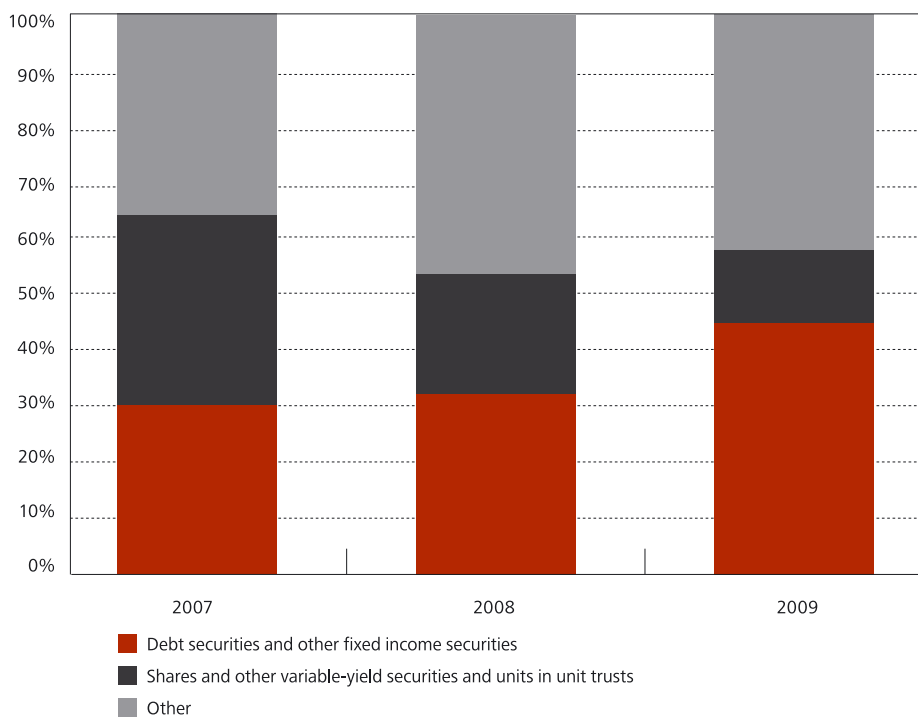
Solvency Cover	2007	2008	2009
Long term business	228%	242%	199%
Reinsurers	501%	772%	496%
General Business	460%	341%	320%
All insurance companies	362%	348%	309%

Source: Malta Financial Services Authority

### Assets held by insurance undertakings

There was a substantial change in asset allocation of insurance undertakings (excluding reinsurance undertakings) between 2008 and 2009. While shares and other variable-yield securities and units in unit trusts made up 22 per cent of the total investment assets of insurance undertakings (excluding investments for the benefit of life-assurance policyholders who bear the investment risk) in 2008, this percentage has fallen to 12 per cent in 2009. On the other hand, debt securities and other fixed income securities made up 32 per cent of the total assets of the undertakings in 2008, with this percentage increasing to 45 per cent in 2009.

Chart 19: Share of asset allocation of insurance undertakings (2007 – 2009)



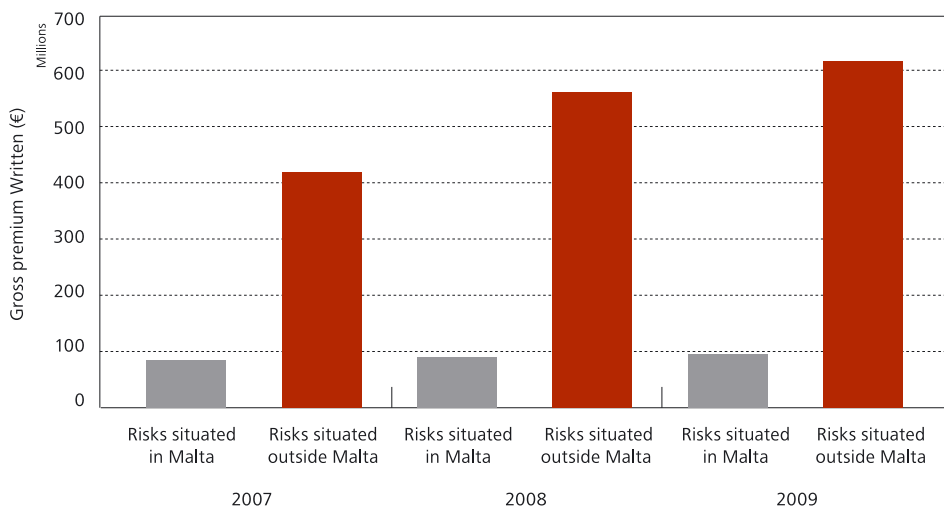
Source: Malta Financial Services Authority

## THE GENERAL BUSINESS SECTOR

### Gross Premium Written (GPW)

The gross premium written (GPW) for general business by insurance undertakings with head office (HO) in Malta increased by ten per cent over the period 2008 – 2009, from €650 million in 2008 to €716 million in 2009. This increase in non-life GPW was a result of upward changes in both risks situated in Malta and risks situated outside Malta.

Chart 20: Total GPW by companies with Head Office in Malta - General Business (2007 – 2009)



Source: Malta Financial Services Authority

The GPW in relation to risks situated in Malta increased by three per cent over the period 2008 - 2009, from €93 million in 2008 to €96 million in 2009. Over the same period, an increase of 11 per cent in the GPW in relation to risks situated outside Malta was registered, specifically from €557 million in 2008 to €621 million in 2009.

#### Gross Premium Written by class of insurance and by type of risk

The largest class of insurance business in the general business sector in 2009 was again the 'Fire & Other Damage to Property' with a share of 42 per cent of the total GPW in 2009, though the share decreased by six per cent from 2008. The second largest class was 'Motor' (16 per cent of GPW) followed by 'General Liability' (15 per cent of GPW). Table six shows the amount of GPW in Malta over 2007 - 2009 in respect of general business split by groups of classes and type of risk.

Table 6: Gross premiums written by class - Companies with Head Office in Malta (2007-2009)

	2007		2008		2009	
	Risks situated in Malta	Risks situated outside Malta	Risks situated in Malta	Risks situated outside Malta	Risks situated in Malta	Risks situated outside Malta
	€	€	€	€	€	€
Accident and health	6,024,000	19,425,000	6,864,000	43,331,000	7,935,000	55,663,000
Motor	49,717,000	11,802,000	50,344,000	38,144,000	52,144,000	59,341,000
Aviation, marine and transport	4,557,000	4,755,000	4,804,000	5,030,000	4,293,000	21,498,000
Fire and other damage to property	23,801,000	250,515,000	24,088,000	289,278,000	24,151,000	277,102,000
General liability	5,389,000	59,018,000	5,656,000	97,914,000	6,156,000	100,430,000
Credit and suretyship	41,000	-	310,000	5,150,000	-	3,327,000
Other classes	592,000	73,140,000	593,000	78,155,000	997,000	103,277,000
<b>Total</b>	<b>90,121,000</b>	<b>418,655,000</b>	<b>92,659,000</b>	<b>557,002,000</b>	<b>95,676,000</b>	<b>620,638,000</b>

Source: Malta Financial Services Authority

There were marginal increases in the GPW over the period 2008 - 2009 with respect to almost all classes of general business of risks situated in Malta except to classes 'Aviation, Marine and Transport' and 'Credit and Suretyship'. With respect to risks situated outside Malta over the period 2008 - 2009, there were increases in almost all classes of business, except 'Fire and Other Damage to Property' and 'Credit and Suretyship'.

The amount of gross premium written ceded to the reinsurers stood at €210 million in 2009, or 29 per cent of total GPW, with the remainder being retained by the licence holders. The share represents a decrease of eight percentage points over the period 2008 - 2009, where 36 per cent of GPW was ceded to the reinsurers in 2008.

#### Claims Paid

In 2009, the total gross claims paid in the general business sector totalled to €300 million, the highest amount (€139 million) being paid in the 'Fire and Other Damage to Property' class.

Table 7: Gross claims paid by companies with Head Office in Malta (2007-2009)

	2007		2008		2009	
	Risks situated in Malta	Risks situated outside Malta	Risks situated in Malta	Risks situated outside Malta	Risks situated in Malta	Risks situated outside Malta
	€	€	€	€	€	€
Accident and health	2,916,000	2,831,000	3,670,000	3,819,000	4,176,000	8,287,000
Motor	26,193,000	4,841,000	27,466,000	11,323,000	28,029,000	25,899,000
Aviation, Marine and Transport	1,111,000	586,000	1,773,000	378,000	1,872,000	10,498,000
Fire and other damage to property	7,842,000	211,799,000	7,480,000	109,829,000	9,198,000	129,669,000
General liability	1,119,000	6,807,000	1,290,000	8,390,000	1,397,000	15,393,000
Credit and suretyship	-	-	6,000	-	0	0
Other classes	4,000	17,801,000	29,000	21,883,000	114,000	65,467,000
<b>Total</b>	<b>39,185,000</b>	<b>244,665,000</b>	<b>41,714,000</b>	<b>155,622,000</b>	<b>44,786,000</b>	<b>255,213,000</b>

Source: Malta Financial Services Authority

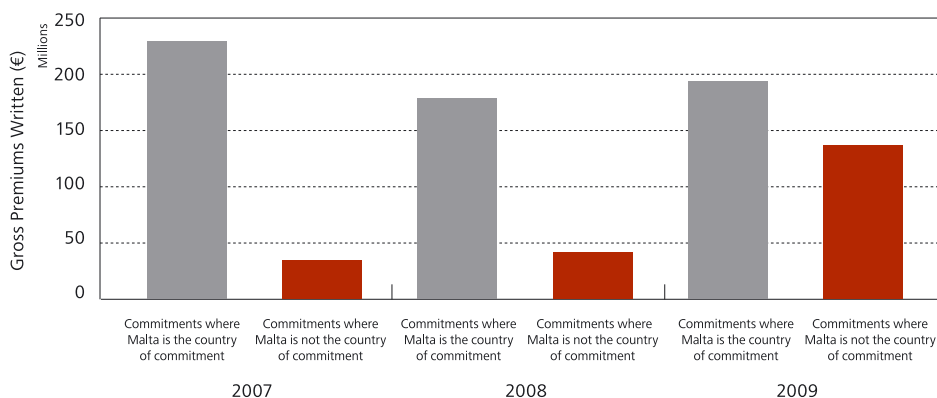
The amount of gross claims paid in respect to risks situated in Malta amounted to almost €45 million or 15 per cent of the total claims paid in 2009. The highest amount of gross claims paid in respect of risks situated in Malta was in the 'Motor' Insurance Class with a share of almost 63 per cent of the total gross claims paid in respect of risks situated in Malta.

## THE LIFE INSURANCE SECTOR

### Gross Premium Written

The gross premiums written by companies with Head Office in Malta for the long-term business increased by 48 per cent over 2008, from €221 million in 2008 to €327 million in 2009. These figures include investment contracts without Discretionary Participation Features (DPF). Growth in GPW was recorded where Malta is the country of commitment (seven per cent) and where Malta is not the country of commitment (238 per cent).

Chart 21: Total gross premium written by companies with Head Office in Malta - Life Insurance Business (2007 – 2009)



Source: Malta Financial Services Authority

#### Gross Premium Written by class of insurance and by type of risk

In 2009, there was a significant growth in risk where Malta is not the country of commitment in the 'Life and Annuity' class, where an increase of 135 per cent over 2008 was registered. Within the same class, there was also a growth (11.2 per cent over 2008) in risk where Malta is the country of commitment. There was also an increase in the 'Permanent Health' class in regards of risks where Malta is not the country of commitment. However, there was a drop in GPW in the same class where Malta is the country of commitment. 'Linked long term' business decreased by five per cent over the period 2008 – 2009.

Table 8: Total gross premiums written by companies with Head Office in Malta (2007-2009)

	2007		2008		2009	
	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
	€	€	€	€	€	€
Life and annuity	178,364,000	36,684,000	151,557,000	38,329,000	168,547,000	90,048,000
Linking long term	28,443,000	-	23,893,000	-	22,669,000	-
Permanent health	6,000	430,000	10,000	1,010,000	8,000	42,893,000
Total GPW (Insurance contracts & investment contracts with DPF)	206,813,000	37,114,000	175,460,000	39,339,000	191,224,000	132,941,000
Investment contracts without DPF	21,268,000	-	6,615,000	-	3,269,000	-
Total GPW	228,081,000	37,114,000	182,075,000	39,339,000	194,493,000	132,941,000

Source: Malta Financial Services Authority

Gross premiums earned stood at €303 million in 2009 of which €17.5 million (or 5.8 per cent) were ceded to reinsurers.

### Claims incurred

The amount of pay-outs through 'surrenders or partial surrenders' written in the domestic sector continued to increase in 2009, from €30.4 million to €35.8 million over the period 2008 - 2009. Throughout 2009, about 29 per cent of pay-outs related to 'surrender or partial surrender', 26 per cent to 'disability periodic payments' while 23 per cent to 'lump sums on maturity'.

Table 9: Gross claims incurred by companies with Head Office in Malta (2007-2009)

	2007		2008		2009	
	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
	€	€	€	€	€	€
Death or disability lump sum	7,068,000	1,682,000	6,802,000	11,376,000	9,534,000	17,663,000
Disability periodic payments	309,000	303,000	231,000	0	231,000	31,310,000
Surrender or partial surrender	23,607,000	0	30,433,000	0	35,836,000	0
Lump sums on maturity	25,852,000	5,087,000	17,520,000	3,391,000	27,116,000	1,721,000
<b>Total</b>	<b>56,836,000</b>	<b>7,072,000</b>	<b>54,986,000</b>	<b>14,767,000</b>	<b>72,717,000</b>	<b>50,694,000</b>

Source: Malta Financial Services Authority



## SUPERVISION AND COMPLIANCE

In January 2010 the MFSA adopted a new structure for the Supervisory Council in order to strengthen the regulatory and supervisory process. The Supervisory Council is chaired by the Director General and is, as a result of the changes, attended by the Directors responsible for the Supervisory Units (Banking, Securities and Markets, Insurance and Pensions), the Director responsible for the Authorisation Unit and the Director responsible for Regulatory Development Unit. The Supervisory Council is responsible for the processing, approval and issuing of licences and other authorisations, and for the monitoring and supervision of persons and other entities licensed or authorised by the Authority in the financial services sector in terms of Article 10 of the Malta Financial Services Authority Act.

During 2010, the Council met 26 times, and approved new licences, authorisations, enrolments and registrations to conduct financial services business as follows:

Credit Institutions	3
Financial Institutions	2
Insurance Principals	6
Insurance Intermediaries	2
Insurance Management Companies	1
Investment Services	22
Recognised Fund Administrators	5
Collective Investment Schemes	108
Trustees & Fiduciary Services	9
Administrators of Private Foundations	2
Retirement Schemes	6
Retirement Scheme: Administrators	5
Retirement Scheme: Asset Managers	3

The requirements which an applicant applying for a licence must satisfy are contained in laws and regulations specific to the various sectors of financial services. However, when considering whether to grant or refuse a licence, the Authority will consider factors such as:

- (i) the promotion of the general interests and legitimate expectations of consumers of financial services;
- (ii) the promotion of fair competition and choice and;
- (iii) Malta's international commitments including its commitments as a Member of the European Union.

The Supervisory Council seeks to maintain a balance between the requirements specific to each sector, reflecting international standards and European Union Directives, and the need to ensure more consistent and harmonised supervision across sectors.

## SUPERVISORY ACTION

The Authority in 2010 had over 80 employees directly engaged in regulation and supervision of licensed entities. Supervision is carried out through both off-site and on-site compliance activities. Off-site compliance staff monitor adherence by licence holders to prudential requirements through the review of periodical returns, financial statements and other documentation. As part of their off-site supervisory function, the Securities and Markets Supervision Unit staff also monitor media advertising issued by authorised persons and newspaper articles and media coverage dealing with companies which have their financial instruments traded on the Malta Stock Exchange. Changes in qualifying shareholding, directors and senior management, and in the memorandum and articles of licensed companies are reviewed by the Authorisation Unit prior to approval.

On-site inspections at the premises of licence holders continued to be carried out on a regular basis. Through their reviews, the supervisors seek to ensure that licence holders' operational activities are in line with the relative licence conditions, applicable legislation, rules and regulation. On-site inspections also serve to ensure that corrective measures were being taken by licensees in relation to weaknesses or shortcomings identified as a result of previous on-site visits or through external auditors' annual statutory reviews. The MFSA continues to adopt a risk-based approach in the supervision of licensed entities, in line with EU Directives implemented in recent years.

In this context, the Banking Supervision Unit's major on-site task during the past year related to the conduct of on-site Supervisory Review and Evaluation Process (SREP) reviews at all the systemically important credit institutions, following the submission of these institutions' Internal Capital Adequacy Assessment Process (ICAAP) reports for the year. The Unit also carried out high-level off-site analysis of the other credit institutions' ICAAPs and communicated findings to them accordingly.

Similarly, the Securities and Markets Supervision Unit analysed the reports of investment services licence holders' Risk Management Internal Capital Adequacy Assessment Process (RMICAAP) which were requested by the Authority during the course of on-site inspections. Any weaknesses identified further to the Unit's supervisory review were communicated to the relevant licence holders.

In preparation for Solvency II, which has to be transposed by Member States by end of December 2012, the Insurance and Pensions Supervision Unit continues to develop a supervisory methodology based on a risk-based approach in relation to its off-site and on-site supervisory work. These changes include development of new supervisory tools and methods, and a more elaborate qualitative off-site and on-site supervision framework.

A total of 47 on-site inspections were carried out by the Supervisory Units during the year. 25 inspections were carried out at insurance licence holders (seven to insurance companies and 18 to intermediaries), 8 at investment intermediaries, 4 visits at Trustees and Fiduciaries and 10 at credit institutions.

A number of investigations into possible breaches of licence conditions were initiated or continued during the year. These included investigations regarding possible breaches of investment restrictions by a number of licensed Professional Investor Funds and the extent of compliance by their Managers and Custodians with their respective regulatory obligations, as well as investigations into possible mis-selling by a number of investment services licence holders of certain investment products and instruments, involving possible breaches of conduct of business requirements by such licence holders. These investigations were still underway as at the end of 2010.

Another investigation into the operations of an insurance company initiated the previous year led to the revocation of the company's licence as referred to below.

### Infringements and Penalties

A number of penalties were imposed during the year. These concerned a number of breaches of licence conditions as well as other infringements under the Insurance Intermediaries Act, the Trusts and Trustees Act, the Investment Services Act and the Financial Markets Act.

The nature of these infringements included failures by a number of insurance intermediaries to have professional indemnity insurance or other comparable guarantee in place; failure by an authorised trustee to keep proper accounting records and minutes and failures by a number of authorised companies to enrol registered persons in the Tied Intermediaries List. Penalties were also imposed on a number of investment service providers for breaches of standard licence conditions.

On 22 October 2010 the MFSA suspended the licence of a retail Collective Investment Scheme while on 21 December 2010 a Directive was issued to another Collective Investment Scheme licensed as a Professional Investor Fund to cease the issuing Units with immediate effect.

Details on the administrative penalties and other sanctions issued by the MFSA may be found on the Authority's website ([www.mfsa.com.mt/pages/sanctions.aspx](http://www.mfsa.com.mt/pages/sanctions.aspx)).

### Revocations

In 2009, the MFSA had restricted the banking licence of The International Banking Corporation (Malta) plc due to circumstances affecting its majority shareholder, The International Banking Corporation B.S.C., which had been placed under administration by the Central Bank of Bahrain on 30 July 2009. The MFSA revoked the licence granted to The International Banking Corporation (Malta) plc on 11 June 2010.

On 12 July 2010 the MFSA revoked the authorisation of European Insurance Group Limited to carry on the business of insurance following investigations in relation to the manner in which business had been conducted by the company. The MFSA also appointed an administrator with effect from 6 August 2010 to take charge of the assets of the company for the purposes of safeguarding the interests of the insured, policyholders, creditors and shareholders of the company, and to assume control of the business of the company. An appeal filed by the company in this respect is currently pending before the Financial Services Tribunal.

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.

### Prevention of financial markets abuse

The MFSA is vested with the function of enforcing the Prevention of Financial Markets Abuse (PFMA) regime and safeguarding the integrity and reputation of the financial market from malpractices.

The Securities and Markets Supervision Unit (SMSU) has continuously monitored on-and-off exchange trading in financial instruments admitted to trading on the Malta Stock Exchange with the aim of identifying

suspicious trading. During 2010, the Unit completed three reviews and initiated six reviews of suspicious market transactions. The Unit also completed one investigation and initiated four investigations of possible market abuse. At the end of December 2010 there were seven reviews and seven investigations which were underway.

The SMSU is currently investigating the trading activities of two individuals who as insiders may have traded on the basis of potentially price sensitive information relating to the issuer.

There are also a number of on-going reviews under the PFMA relating to possible cases of market manipulation and insider dealing.

### Litigation before the Financial Services Tribunal

The Legal and International Affairs Unit is responsible for representing the Authority – often in conjunction with other Units – in a number of cases before the Financial Services Tribunal and the Courts. The Financial Services Tribunal is the appeal mechanism established under the MFSA Act which allows individuals or companies who feel aggrieved by a decision taken by the Authority to appeal against the decision.

During 2010, three new appeals were lodged before the Financial Services Tribunal. At the end of the year there were a total of six appeals from decisions of the MFSA pending before the Financial Services Tribunal.

Three of the pending appeals are related to the MFSA's regulatory action against three individuals with respect to their suspicious trading in the securities of a particular listed Company. Another appeal is in relation to a decision by the MFSA to revoke an insurance company's licence to carry on insurance business. The two other appeals relate to the MFSA's decision to impose a penalty for unauthorised changes to an approved prospectus and an appeal from the MFSA's decision to impose a penalty for breaching the duties of a sponsor and the unauthorised publication of a prospectus not as approved by the Listing Authority. A list of appeals from decisions of the MFSA which are pending before the Financial Services Tribunal may be found on the Tribunal's website: [www.mfst.gov.mt](http://www.mfst.gov.mt).

### Listing Committee

The Listing Committee met twelve times during the year under review. A number of other ad hoc meetings were held to discuss specific topics with third parties including representatives of the various Issuers, representatives of the Malta Stock Exchange and stockbrokers. The market is monitored regularly to ensure that Issuers comply with their continuing obligations in terms of the Listing Rules. During the year, the Authority issued a reprimand to a Listed Company following a breach of prospectus and issued a penalty to a Listed Company for breaching the Listing Rules, principally for publishing a revised prospectus without the prior approval of the Listing Authority. Another penalty was also issued to its Sponsor for a related breach of the Listing Rules. Both penalties were appealed and are currently being considered by the Financial Services Tribunal.

During 2010, the MFSA - as the Listing Authority for all matters relating to the admissibility to listing on a regulated market - issued revised Listing Rules which also transpose the requirements of the EU Transparency Directive and the Prospectus Directive besides arrangements for investments funds authorised in other jurisdictions ([www.mfsa.com.mt/pages/viewcontent.aspx?id=267](http://www.mfsa.com.mt/pages/viewcontent.aspx?id=267)).

## Financial stability

The Standing Committee comprising officials from MFSA and the Central Bank of Malta met regularly throughout the year to discuss issues of common interest to both institutions. Discussions of the Committee focus primarily on matters and developments related to prudential supervision and financial stability issues.

One of the key initiatives of 2010 was the stress test exercise carried out under the mandate from the EU Council of Ministers of Finance (ECOFIN) and coordinated by CEBS in cooperation with the ECB, national supervisory authorities and the EU Commission. The aim of the exercise was to assess the overall resilience of the EU banking sector and the banks' ability to absorb further possible shocks on credit and market risks, including sovereign risks. The exercise was conducted on a bank-by-bank basis for a sample of 91 EU banks from 20 EU Member States, covering at least 50% of the banking sector, in terms of total consolidated assets, in each of the 27 EU Member States, using commonly agreed macro-economic scenarios for 2010 and 2011, developed in close cooperation with the ECB and the European Commission.

Bank of Valletta plc was subjected to the EU stress test. The stress test complemented the risk management procedures and regular stress testing programmes carried out by the bank under the Pillar 2 framework of the Basle II and CRD requirements. The results for Bank of Valletta plc have been published and can be accessed from the websites of the Central Bank of Malta and the MFSA. According to the criteria set by CEBS and the ECB, HSBC Bank Malta plc participated in the exercise on a consolidated basis as part of the HSBC Holding plc, its parent institution. In this case the stress test exercise was conducted by the authorities in the United Kingdom. The local subsidiaries of other European Banks also formed part of stress tests conducted on a group basis by the authorities in the home Member State of the parent. These included the Erste Bank Group Bank (Austria), Deutsche Bank (Germany), National Bank of Greece (Greece) and HSBC Holdings (UK).

## Crisis Management

The Domestic Standing Group set up by the Ministry of Finance, the Central Bank of Malta and the MFSA in response to the international financial crisis mandated the Working Group on Crisis Management to set up a Joint Task Force (JTFBR) composed of members from the MFSA, Central Bank of Malta and the Office of the Attorney General to assess and review the bank resolution and insolvency legislative regime and to make recommendations accordingly. The importance of a review of the current bank resolution/insolvency regime had been recognised by the International Monetary Fund in the Malta Article IV Consultation Mission Report for 2009. The JTFBR met 12 times during the year to discuss and research the matter.

## Prevention of money laundering

Review of compliance by licence holders on matters relating to money laundering is carried out by the Financial Intelligence and Analysis Unit (FIAU), either independently or jointly with the MFSA. In a number of cases, normally in relation to smaller licence holders, the MFSA may also carry out the assessment on behalf of the FIAU.

Compliance reviews cover 'know your customer', record keeping and other requirements under the Prevention of Money Laundering Act (Cap. 373) and the underlying Regulations. Breaches of the

relevant legislation identified by the MFSA are followed up with the licence holder to determine what action is being taken to rectify the breach. Any breach identified by the MFSA is also reported to the FIAU.

During 2010, Supervisory Council Members met with Members of the FIAU to discuss various issues in relation to the work undertaken to prevent money laundering. The MFSA also submitted feedback to the FIAU in relation to consultations on 'Procedures and Guidance implementing the Prevention of Money Laundering and Financing of Terrorism Regulations'.

The MFSA's Money Laundering Reporting Officer also attended the meetings of the Joint Committee for the Prevention of Money Laundering and Funding of Terrorism held during the year. The main function of the Committee is to create a forum between the authorities and the industry to exchange views and concerns regarding developments in anti-money laundering and combating of terrorism regulations and standards. The Joint Committee includes representatives of the Financial Intelligence and Analysis Unit, the Malta Financial Services Authority, the Central Bank of Malta, the Attorney General, the Malta Police, the Lotteries and Gaming Authority, the Malta Stock Exchange, the Chamber of Advocates, Chamber of Legal Procurators, the Malta Insurance Association, the College of Notaries, the Malta Bankers' Association, the Association of Licensed Financial Institutions, the Malta Institute of Accountants, the Malta Funds Industry Association, the Institute of Financial Services Practitioners, the College of Stockbrokers, the Federation of Real Estate Agents and the Malta Institute of Taxation.

During 2010 Malta continued to participate actively in the work of the Council of Europe Select Committee of Experts on the Evaluation Of Anti-Money Laundering Measures And The Financing Of Terrorism (MONEYVAL). Moneyval held three plenary meetings in Strasbourg during which it adopted a number of Mutual Evaluation Reports and Progress Reports including Malta's Second 3rd Round Progress Report. The Progress Report outlined the progress made by Malta since the adoption of the 3rd Round Mutual Evaluation Report in 2006. Malta participated actively in all plenary meetings and also in a training seminar for evaluators held in Andorra. In its September / October plenary meeting MONEYVAL agreed to the nomination of the Vice-President - Dr Anton Bartolo, who is also the Registrar of Companies at the MFSA, as Co-chair of the Europe Eurasia Regional Review Group within the International Cooperation Review Group process of the FATF. This nomination was approved by the FATF during the October 2010 plenary.

### International Sanctions

The MFSA is a member of the Sanctions Monitoring Board established by the Sanctions (Monitoring Board) Regulations of 2006 issued in terms of the National Interest (Enabling Powers) Act (Cap. 365). The primary function of the Board is to monitor the adherence to regulations made under the National Interest (Enabling Powers) Act, with a view of harmonising practice thereon with that followed by other States enforcing the sanctions relative to the same regulations. A list of all persons and entities against whom sanctions are currently in force in adherence to the UN Security Council Resolutions and EU Regulations is published under the 'Sanctions' section on the Authority's website ([www.mfsa.com.mt](http://www.mfsa.com.mt)).

## Independent Assessment of the Regulatory Structures

Since its establishment as the single regulator for financial services in 2002, the MFSA has worked to build and enhance Malta's status as a financial services centre. Systematic progress, standards and effectiveness measuring began in the year of the Authority's inception. The IMF/World Bank asked to conduct a Financial Sector Assessment Programme (FSAP) in late 2002 and 2003. That assessment concluded that Malta's financial system appeared to be healthy and well supervised, with a comprehensive legal framework and strong adherence to most international standards and codes for regulatory and supervisory practices. EU membership provided a further assessment of MFSA's regulatory and supervisory regimes prior to accession in 2004, which proved to be an important catalyst for the further development of the financial services industry. Internal Audits on the adherence of the Authority to the core principles established by relevant international standard setting institutions, were carried out in 2005 and 2007. A further internal audit was due to be carried out in 2009, however, because of the number of new legislative changes coming into force at EU level and because of changes in composition of the Supervisory Council, the internal audit was postponed to 2010.

The Board of Governors, noting that increased transparency was being requested from companies following the global financial crisis, decided that the 2010 internal audit should take the form of an independent assessment and should be carried out using the same format as the FSAP. It was also decided that this assessment and future assessments should be made public. The Independent Assessment 2010 was undertaken by an independent team of assessors led by Mr Piero Ugolini (former Assistance Director at the IMF and Mission Chief of the IMF/World Bank team that had conducted the 2002/3 FSAP) and included also Mr Richard Nun peripatetic expert in banking supervision at the IMF and Centennial Group, Washington D.C., USA) and Mr Michael Kehr (Senior Advisor International Policy/Affairs at the Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin - Germany).

The assessment was based on Basle Core Principles (BCP) for effective banking supervision; the International Organisation of Securities Commission (IOSCO) objectives and principles of securities regulation; and the observance of Insurance Core Principles for Insurance and Pensions Supervision - International Association of Insurance Supervisors (IAIS).

The 2010 independent assessment was greatly facilitated by the detailed self-assessment and other information supplied by the MFSA as well as other participants from the public and private sector.

The overall outcome of the assessment was very positive with progress noted in all sectorial assessments. The findings showed that the Banking sector has made significant improvement in the overall compliance with the BCPs. With entry into the EU in 2004 the Malta financial sector, which had already been aligned to EU standards as far back as 1994, became an integral part of the EU framework aimed at strengthening the soundness of the banking sector. Table 10 below provides a comparison of compliance between the 2002/3 FSAP and the 2010 Independent Assessment within the Banking sector.

Table 10

Basle Core Principles	
2002/3 Assessment	2010 Assessment
Compliant: 11	Compliant: 21
Largely Compliant: 12	Largely Compliant: 5
Materially Non-Compliant: 1	Materially Non-compliant: 0

With regards to the Insurance Sector, at the time of the 2002/3 FSAP, the IAIS Insurance Core Principles (ICP) consisted of 17 Core Principles based on standards adopted in 2000. Table 11 below provides broad comparisons of compliance to the IAIS Principles. In view of the all-embracing changes not only of the market environment and supervisory framework, but also of the Insurance Core Principles themselves (the standards adopted in October 2003 increased the number of principles from 17 to 28), a comparative update of the 2002/2003 FSAP through a principle by principle review could not be carried out. From the overall 2010 assessment it resulted that the MFSa observes most of the 28 IAIS Core Principles.

Table 11

IAIS Principles – Broad Comparisons 2002/3 -2010	
2002/3 – 17 ICP	2010 – 28 ICP
Observed: 12	Observed: 22
Broadly Observed: 3	Largely Observed: 4
Materially Non-Observed: 2	Partly Observed: 2

In the Securities sector, progress was made from an already relatively positive assessment undertaken in 2002/3. Since Malta's accession to the EU in May 2004, the Maltese financial services market has been fully adjusted to comply with EU law in the field of regulation of securities business. The major developments include: the adoption of the Prevention of Financial Markets Abuse Act by virtue of which Malta transposed and implemented the EU Market Abuse Directive; the Investment Services 1994, the Financial Markets Act (FMA), 1990 and the regulations and rules issued thereunder were subject to significant amendments for the purpose of transposing the EU Markets in Financial Instruments Directive.

The FMA was also amended to provide for the regulation of Central Securities Depositories. Table 12 below provides a comparison of the 2002/3 FSAP and the 2010 Independent Assessment within the securities sector.

Table 12

<b>IOSCO 2002/3 – 2010 30 Principles</b>	
<b>2002/3 Assessment</b>	<b>2010 Assessment</b>
Implemented: 22	Implemented: 24
Broadly Implemented: 0	Broadly Implemented: 4
Partly Implemented: 6	Partly Implemented: 0
Non-implemented: 0	Non-implemented: 0
Not applicable: 2	Not applicable: 2



## LEGISLATIVE AND REGULATORY DEVELOPMENTS

During 2010, the Authority conducted 39 consultations (Appendix IV) on a variety of legislative initiatives particularly the transposition of EU Directives. Consultation papers were circulated to the financial services industry and were also placed on the Authority's website. The consultation documents were followed up by feedback statements incorporating comments made by the industry and suggested changes to the proposed legislation.

The Various Financial Services Laws (Amendment) Act (Act XIX of 2010) came into force during 2010 and included changes to reflect the MFSA organisational restructuring and updates and improvements to a number of laws. The Act incorporated amendments to the Malta Financial Services Authority Act, the Financial Markets Act, the Companies Act and the Insurance Business Act.

Other legislative work carried out or completed in 2010 included work on the transposition of a number of EU Directives, other changes in the prudential supervisory framework and the improvements in the legal infrastructure underpinning the sector.

In the meantime the MFSA continued to be actively involved in various European regulatory fora dealing with the development and implementation of legislation in the European Union. This included participation in a number of working groups and sub-committees set up by the European Commission, the Committee of European Banking Supervisors (CEBS), the Committee of European Securities Regulators (CESR) and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) to provide feedback on draft legislation or advise on issues related to the implementation of regulation in the respective areas of responsibility.

### SOLVENCY II

The final text of 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 II) (recast) was adopted by the Council on 10th November 2009. Solvency II represents a fundamental review of the capital adequacy regime for European insurers and reinsurers. It aims to establish a revised set of EU-wide capital requirements, valuation techniques and risk management standards that will replace the current Solvency I requirements.

In this regard, the Authority issued a Guidance Paper entitled "The System of Governance under Solvency II." This Guidance Paper had the aim of further highlighting and explaining key elements of the Solvency II regime so as to continue to assist insurance undertakings in their preparations for the implementation of Solvency II. The Guidance Paper further underlined the importance for insurance undertakings to start implementing systems, processes and procedures with respect to the system of governance even though these requirements will eventually become mandatory once the Solvency II regime comes into force. A questionnaire, annexed to the document, sought to determine which systems, processes and procedures insurance undertakings had already implemented, or planned to implement by the beginning of 2010 in preparation for Solvency II with respect to the system of governance. The industry was required to respond to the questionnaire by 30 June 2010.

During the year under review, the Authority also alerted the industry with regards to the publication by CEIOPS of consultation documents on the second set of advice on Solvency II – Level 2 implementing measures. The Consultation Papers approved by CEIOPS members dealt with a large number of Pillar I, Pillar II, Pillar III and group issues, which had been developed on the basis of the Solvency II Level 1 text adopted by the European Parliament on 22 April 2009.

In the light of the Solvency II project, the European Commission asked CEIOPS to conduct a range of Quantitative Impact Studies ('QIS') aimed at assessing the underlying assumptions to the 'standard model' as referred to in the Directive. In this regard, in a circular issued to the industry on 9th April 2010, the Authority informed that QIS5 was expected to run between August 2010 and November 2010. This circular was the first of four circulars which the Authority issued throughout 2010 on the running of QIS5.

The aim of QIS5 was that of primarily testing the impact of an approach to the quantitative requirements that would be introduced at Level 2. A substantial number of Maltese insurance undertakings took part in this exercise. Following an extensive analysis including any necessary follow-ups with the participating undertakings, the Authority submitted the quantitative data requests to CEIOPS. The qualitative data has been aggregated into a QIS5 Country Report. The Authority should be submitting this Country Report to CEIOPS by January 2011. 86% of undertakings carrying insurance business in Malta took part in QIS5.

Towards the end of 2010, the Authority notified the insurance industry of a new consultation on the Level 2 implementing measures for Solvency II which had been launched by the European Commission. This consultation aimed at gathering views on the wider market impacts of the suggested approaches and to seek views that are of a more qualitative nature. The outcome of the consultation will be used alongside the results of QIS5 to finalise the proposal for Level 2 Implementing Measures. The consultation period expires in January 2011.

#### UCITS IV

Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) was approved by the European Parliament in January 2009 and adopted by Council in June 2009. Throughout 2010, UCITS IV was further supplemented by the following Level II Implementing Measures:

- Regulation EU/584/2010 on the standard notification letter, the use of electronic communication between competent authorities, and procedures for investigations and the exchange of information between competent authorities;
- Regulation EU/583/2010 on key investor information and conditions to be met when providing key investor information or a prospectus in a durable medium other than paper or by means of a website;
- Directive 2010/42/EU on fund managers, master-feeder structures and notification procedures;
- Directive 2010/43/EU on organisational requirements, conflicts of interest, conduct of business, risk management and the content of the agreement between a depositary and a management company.

During the year under review, the Authority issued six circulars relating to the developments on UCITS IV and to the manner with which the Authority proposed to proceed with the transposition and implementation of specific provisions of the Directive. Furthermore, the Authority issued 17 circulars notifying the industry of any consultation documents or guidelines issued by CESR on Level 2 Implementing Measures.

The Authority also set up an Internal Working Group composed of officials from the Securities and Markets Supervision Unit and the Regulatory Development Unit to work on the transposition and implementation of UCITS IV. The deadline for the transposition and implementation is 30th June 2011 and the Authority is planning to have the entire transposition process finalised by the first quarter of 2011 to subsequently issue the proposed legislation for consultation with the industry.

#### PAYMENT SERVICES DIRECTIVE

The main aim of the PSD was that of providing the legal foundation for the creation of an EU-Wide Single Market for payments so as to make cross-border payments as easy, efficient and secure as 'national' payments within a Member State. The Financial Institutions and other Financial Services Laws (Amendment) Act, Act II of 2010, was published on 7th May 2010. The Act transposes and implements the provisions of Title I and Title II of Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC ("Payment Services Directive").

Article 9 of the Payment Services Directive (PSD), which deals with the safeguarding requirements was transposed in the Financial Institutions Act (Safeguarding of Funds) Regulations which were issued for consultation during the month of August. The main aim of Article 9 is the safeguard of funds received by financial institutions carrying out payment services directly from payment services users or from other payment services providers for the execution of payment transactions. The Regulations provide that these funds constitute a distinct patrimony, and financial institutions carrying out payment services are obliged to segregate these funds and keep them separate from the funds of any other person. Additionally, these Regulations are also intended to increase legal certainty, clarity and transparency in this area. These Regulations come into force early in 2011.

The transposition of the PSD has also involved considerable changes to the Financial Institutions Rule. FIR/01/2010 – Application Procedures and Requirements for Authorisation of Licences under the Financial Institutions Act 1994 – was revamped to apply to all companies intending to carry out any of the activities listed in the Schedules to the Financial Institutions Act.

The Authority also worked on Financial Institutions Rule FIR/02 on the Supervisory and Regulatory Requirements of Institutions authorised under the Financial Institutions Act 1994 (FIR/02) which is expected to come into force during the first quarter of 2011.

The Directive also provides the necessary legal platform for the Single Euro Payments Area (SEPA).

#### ELECTRONIC MONEY INSTITUTIONS DIRECTIVE

Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending

Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC ("E-Money Directive") was published in the Official Journal on 10th December 2009. In the months leading up to the publication of this Directive, the Banking Supervision Unit submitted comments on the draft text of the proposed Directive to the EU Working Party on the Directive.

The E-Money Directive aims at modernising the EU rules on electronic money and updating the prudential regime for electronic money institutions that complements the regulatory framework for payment institutions created by the Payment Services Directive. One of the main aims of the revamp of the E-Money Directive is to facilitate market access to new participants.

The groundwork for the transposition and implementation of the E-Money Directive was carried out in 2010. The transposition process involved primarily the amendment of the Financial Institutions Act and Banking Act. As was done with the implementation of the Payment Services Directive, the provisions dealing with safeguarding of funds were transposed in the Financial Institutions Act (Safeguarding of Funds) Regulations. Furthermore, the Authority will also issue a new Financial Institutions Rule FIR/03 dealing with the prudential reporting package for certain types of financial institutions.

The Various Financial Services Laws (Amendment) Act, 2011, which among other laws will amend the Financial Institutions Act to transpose the E-Money Directive, will come into effect early in 2011. This will be followed by Financial Institutions Act (Safeguarding of Funds) Regulations and the new FIR/03 in line with the April 2011 transposition deadline set out in the Directive.

#### ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE

On 11 November 2010, the European Parliament voted in favour of the Directive on Alternative Investment Fund Managers. The Directive is expected to come into force during the first quarter of 2011 and must be transposed into national law by 2013. The primary objective of the Directive is that of creating an all-encompassing and secure framework for the supervision and prudential regulation of alternative investment fund managers in the EU. Once the Directive comes into force, all alternative investment fund managers will be required to obtain authorisation and will be subject to ongoing supervision and regulation. The aim of this new framework is that of increasing the transparency of alternative investment fund managers towards investors, regulatory authorities, supervisors and the employees of companies in which they invest.

On 2nd December 2010, the European Commission requested the advice of CESR on the preparation of the Level 2 measures based on the structure of the Level 1 Directive. No deadlines have been set for Level 2 measures but the understanding is that these should be transposed within the same deadline as the Level 1 Directive. Due to the significant number of implementing powers, the provisional request has been divided into four parts: Part I covers general provisions, authorisation and operating conditions; Part II is devoted to implementing measures regarding the depositary; Part III covers Transparency Requirements and Leverage and Part IV covers implementing measures regarding supervision. The deadline for the delivery of the advice by CESR/ESMA is 16 September 2011.

The Authority is currently monitoring closely the developments at EU level, giving particular attention to the Level 2 implementing measures and is participating in the different Groups and Sub-Groups set up by ESMA.

## INCORPORATED CELL COMPANIES

The Companies Act (Incorporated Cell Companies Carrying on Business of Insurance) Regulations, 2010 and the Companies Act (SICAV Incorporated Cell Companies) Regulations published at the end of the year have introduced the concept of incorporated cell companies in the insurance and the funds sector. These new vehicles were introduced following indications that the market was seeking these types of structures to continue developing new products and services in the insurance and investment funds sector.

Both sets of Incorporated Cell Companies Regulations build on and consolidate the established protected cell company regime in force in the insurance sector. However, incorporated cell companies adopt a different approach to protected cell companies, since the former are structured with different “patrimonies” which are all segregated through cells which are independent and separate from each other and from a “core patrimony” of the entity.

In the insurance sector, the Incorporated Cell Companies Regulations are further supplemented by amendments to Insurance Rule 6 - Schemes of Operations Relating to Business of Insurance and to the Insurance Business (Fees) Regulations to cater for the introduction of this new corporate vehicle.

In the funds sector, the Authority issued a circular detailing the extension of the Investment Services Act (Licence and Other Fees) Regulations as well as the applicable Investment Services Rules to SICAVs established under the ICC framework.

Together with the Continuation of Companies Regulations which provide for the redomiciliation of companies, both sets of Regulations provide for the possibility of redomiciliation to Malta of foreign companies which are similar in structure to incorporated cell companies.

Both Regulations come into force on 1st February 2011.

## CREDIT AND FINANCIAL INSTITUTIONS

During the year under review, the Authority proceeded with the revision of the Banking Act and the Banking Rules in line with requirements prescribed in Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management (‘CRD II’).

The Banking (Amendment) Bill was published on 17 December 2010 and transposes the provisions of CRD II. This Bill is expected to come into force during 2011.

Furthermore, the Authority issued a number of revised Banking Rules. In particular BR/01/2010 – Application procedures and requirements for authorisation of licences for banking activities; BR/02/2010 – Large Exposures of Credit Institutions ; BR/03/2010 - Own Funds of Credit Institutions, BR/04/2010 - Capital Requirements of Credit Institutions, BR/07/2010 - Publication of Annual Report and Audited Financial Statements by Credit Institutions, BR/08/2010 - Capital adequacy of Credit Institutions, BR/10/2010 - Supervision on a consolidated basis of Credit Institutions and BR/12/2010 - Supervisory process of Credit Institutions, were amended to reflect the transposition of the provisions of CRD II.

BR/08/2010 and BR/12/2010 were also amended to reflect the applicable provisions of Commission Directive 2009/27/EC of 7 April 2009 amending certain Annexes to Directive 2006/49/EC of the European Parliament and of the Council as regards technical provisions concerning risk management. BR/04/2010 and BR/12/2010 were also amended to transpose related changes brought about by Commission Directive 2009/83/EC of 27 July 2009 amending certain Annexes to Directive 2006/48/EC of the European Parliament and of the Council as regards technical provisions concerning risk management.

In the process BR/07/2010 and BR/12/2010 were also amended to transpose provisions of Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies also referred to as CRD III.

The amended rules came into force on 31 December 2010.

During the first quarter of 2010, the Authority informed the industry about a public consultation launched by the European Commission on possible changes to the Capital Requirements Directive aimed at reinforcing the banking sector and the financial system in general.

CRD IV proposes to target seven specific policy areas as being potential areas of action namely: (i) liquidity standards; (ii) definition of capital; (iii) leverage ratio; (iv) counterparty credit risk; (v) countercyclical measures; (vi) systemically important financial institutions and (vii) single rule book in banking. The possible changes set out in the consultation document are closely aligned with the forthcoming Basel II framework and the introduction of a global liquidity standard which are currently being drawn up by the Basel Committee on Banking Supervision.

During the period under review, the revised Depositor Compensation Scheme Regulations came into force (L.N. 109 of 2010). The main amendments concerned Regulation 11 which deals with the participants to the Scheme and the Second Schedule which regulates the contributions to the Scheme. By virtue of these new amendments, credit institutions are required to maintain 0.1% of their eligible deposits with the Scheme by way of a cash contribution at all times. Furthermore, credit institutions are also required to create and maintain a Depositor Compensation Scheme Reserve equivalent to 0.67% of their eligible deposits. This Reserve is to be created immediately upon the entry into force of the proposed amendments, and the funds constituting it shall become payable to the Scheme upon cessation of all licensable activities.

In view of the current amendments which are being proposed to the International Financial Reporting Standards (IFRS), the Authority and the Central Bank set up a Working Group to assess the impact of these amendments and to discuss possible future amendments to BR/09/2008 – Credit and country risk provisioning of credit institutions – once the amendments to the IFSRS come into force.

Finally, the Authority was also requested by the Consumer and Competition Division to review the Consumer Credit Regulations (Legal Notice 330 of 2010) which transposed and implemented the provisions of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC EC. In particular, the Authority's review focussed on the provisions relating to mortgage credit provisions.

## INSURANCE, REINSURANCE AND PENSIONS

During 2010, the Authority was engaged in discussions with the Attorney General's Office concerning the Retirement Pensions Act which proposes to regulate retirement schemes, retirement funds and service providers related thereto. The Bill is expected to be enacted during the first quarter of 2011.

On 8th November 2010, the Authority issued for Consultation a Draft Pensions Rule on programmed withdrawal arrangements for private retirement schemes. The final version is expected to come into force during 2011.

The Companies Act (Cell Companies carrying on Business of Insurance) Regulations, 2010 (L.N. 243 of 2010) came into force and repealed the 2004 Cell Companies Regulations. The main changes in these regulations related to an issue on the collection of the contributions to the Protection and Compensation Fund in respect of a Protected Cell Company carrying on affiliated insurance business. The Insurance Business (Penalties for Offences and Infringements) (Amendment) Regulations, 2010 and the Insurance Intermediaries (Penalties for Offences and Infringements) (Amendment) Regulations 2010 were published and came in force on 2nd February 2010.

Proposed amendments to Insurance Intermediaries Rule 13 of 2007 – Monies held in a fiduciary capacity were circulated with the industry during September 2010. The amendments to Insurance Intermediaries Rule 13 come into force on 1st January 2011.

During October 2010, the Authority issued a Circular addressed to enrolled Insurance Brokers/ Agents / Managers. The purpose of this circular is that of clarifying certain provisions of the Professional Indemnity Guidelines appended to the Insurance Intermediaries Rule 12 of 2007.

In response to the feedback provided by the industry following consultation on Insurance Intermediaries Rule 7 - Code of Insurance Selling Practice, was amended to allow tied intermediaries to deposit motor vehicle licence fees to the Tied Insurance Intermediaries Account. The amendments to this rule were further supplemented by amendments to Insurance Intermediaries Rule 4 - Code of Conduct for Insurance Intermediaries, to provide for the issue of receipts by insurance intermediaries. The amendments to these two Rules were published in November 2010 and will come in force on 1st January 2011.

The requirement for insurers carrying out motor business in Malta to subscribe to the Motor Insurance Pool was removed during 2010. As a result amendments to the following Insurance Rules were carried out:- Insurance Rule 6 of 2007 - Schemes of Operations Relating to Business of Insurance; Insurance Rule 22 of 2009 - Exercise of Passport Rights by European Insurance Undertakings and European Reinsurance Undertakings – Establishment; and Insurance Rule 23 of 2009 - Exercise of Passport Rights by European Insurance Undertakings – Services.

## TRUSTS AND TRUSTEES

During 2010, the Authority set up a Working Group which included representatives from the Authority and representatives from the industry. This Working Group was set up to discuss proposals for improving Malta's legislation and practices regulating trusts. Some of the improvements are aimed directly at making Malta a more attractive trust domicile while others represent better interpretations to the Trusts and Trustees Act. The Working Group held six meetings during 2010 and is expected to hold further meetings during 2011. Following these meetings, the Authority will proceed to incorporate the agreed proposals in the Trusts and Trustees Act during 2011 and issue additional guidelines as the case may be.

## LISTING RULES

On 13th January 2010, the Authority launched a consultation proposing amendments to Chapters 2, 3, 5, 8, 11, 14 and 16 of the Listing Rules, following work carried out by the Working Committee set up for the purpose. The proposed amendments were aimed at simplifying and updating the Listing Rules to facilitate the understanding and application thereof by the industry and the entities operating in the Maltese capital market. Subsequently, a second consultation was launched on proposed amendments to Chapter 15 of the Rules. The aim of the amendments to this chapter was that of making it possible for Schemes which are not licensed in Malta or which are not UCITS Schemes which have passported into Malta, but which are established in a "Recognised Jurisdiction" to be eligible for admissibility to Listing on a Regulated Market in Malta. All the proposed amendments came into force on 16th November 2010 with the publication of revised Listing Rules.

On 16th August 2010, following prior consultation with the industry, the Authority published two policies applicable to applicants for admissibility to listing on a Regulated Market. The first policy concerned the updating of the principles applicable to the Sinking Fund Requirement whereas the second consisted in a new policy requiring a financial soundness report to be submitted by applicants for admissibility to listing of corporate bonds marketing to local retail investors.

## SECURITIES

During the year under review, the Authority issued a Guidance Note for Shariah Compliant Funds. The purpose of this Guidance Note was two-fold namely to provide guidance to fund promoters considering setting up a Shariah fund under the Investment Services Act and to indicate issues which the Authority expects to address as part of the licence conditions in the case of Shariah funds established in Malta.

The Authority also focussed on legislative initiatives which related mainly to the transposition of the Capital Requirements Directive in the securities sector. New Investment Services Act (Financial Capital Adequacy Consolidation) Regulations have been proposed in order to transpose Articles 37 and 38 of Directive 2006/49/EC as supplemented by Chapter 4 of Title V Directive 2006/48/EC and Article 42a of CRD II. These Regulations aim at establishing the circumstances where the competent authority would be responsible for the supervision on a consolidated basis and outline the functions of the Authority with respect to supervision on a consolidated basis. These Regulations are supplemented by amendments to the Investment Services Rules for Investment Services Providers. In particular, the amendments to the Rules had a dual purpose namely that of aligning them with the Draft Regulations and implementing the provisions of Directive 2006/48/EC applicable to Licence Holders. The Investment Services Act (Financial Capital Adequacy Consolidation) Regulations are expected to come into force during 2011.

In addition, the Authority was also involved in the preparation of the Financial Markets Act (Credit Rating Agencies) Regulations, 2010 which relate to EC Regulation 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies. Even though this EC Regulation is directly applicable, and has full legal effect without requiring transposition, it provides for national implementation to deal with matters such as penalties, enforcement procedures and appeals from registration decisions. In this regard, the Financial Markets Act (Credit Rating Agencies) Regulations, 2010 propose the first general framework for the regulation of credit rating agencies which may be established in Malta. Therefore with effect from 7th December 2010, where a prospectus is published by an issuer of financial instruments and this refers to a credit rating, the issuer applying for admissibility to listing is required to ensure that the prospectus also includes clear and prominent information stating

whether or not such credit ratings are issued by a credit rating agency established in the EU and registered under EC Regulation 1060/2009.

Following the renewed interest in the establishment of contractual funds under the Investment Services Act, in August 2010 the Authority launched a consultation on draft regulations on Contractual Funds in terms of the Investment Services Act. This consultation served a dual role in that it provided feedback to a prior consultation on the same matter which had been launched by the Authority during 2009 and secondly, it introduced provisions regulating the establishment of Special Investment Vehicles by contractual funds. The Investment Services Act (Contractual Funds) Regulations, 2010 provide a more functional framework for the set-up, operation and regulation of these types of funds. These Regulations are expected to come into force in January 2011.

The Companies Act (Tenth Schedule) Regulations (L.N. 561 of 2010), which came into force on 30th December 2010 are aimed at aligning as much as possible the Tenth Schedule of the Companies Act with the SICAV Regulations. These amendments create a level playing field in regulation between SICAVs and Limited Partnerships. Following the coming into force of these amendments both SICAVs and Limited Partnerships benefit from a similar legislative framework and Limited Partnerships may be formed either as a multi-class partnership or as a multi-fund partnership. In the latter case the multi-fund partnership may also elect for the segregation of assets and liabilities of each separate fund.

These Regulations follow on another important development which has seen Article 66A of the Companies Act being amended to make it possible for Limited Partnerships to be set up with capital that is not divided into shares. This change in law followed an interpretation of the term 'Unit' given by the Authority which considered that an interest that does not amount to a share in a fund may still qualify as a 'unit' in terms of the Investment Services Act.

#### OTHER LEGISLATIVE DEVELOPMENTS

Toward the end of the year, following discussions with the Central Bank of Malta, the Authority launched a consultation on the proposed amendments to the Financial Collateral Arrangements Regulations. The proposed Collateral Arrangements (Amendment) Regulations, 2011 transpose Directive 2009/44/EC of the European Parliament and of the Council of 6 May 2009 amending Directive 2002/47/EC on financial collateral arrangements as regards linked systems and credit claims. Since the latter EU Directive is a minimum harmonisation directive, the Authority considered going beyond the provisions of the said Directive, for the purpose of widening its scope and benefits, and to keep in line with market developments. The consultation period should terminate during the first weeks of January 2011 following which the Authority plans to issue a feedback statement and proceed with the revised regulations.

#### CROSS-BORDER COLLABORATION

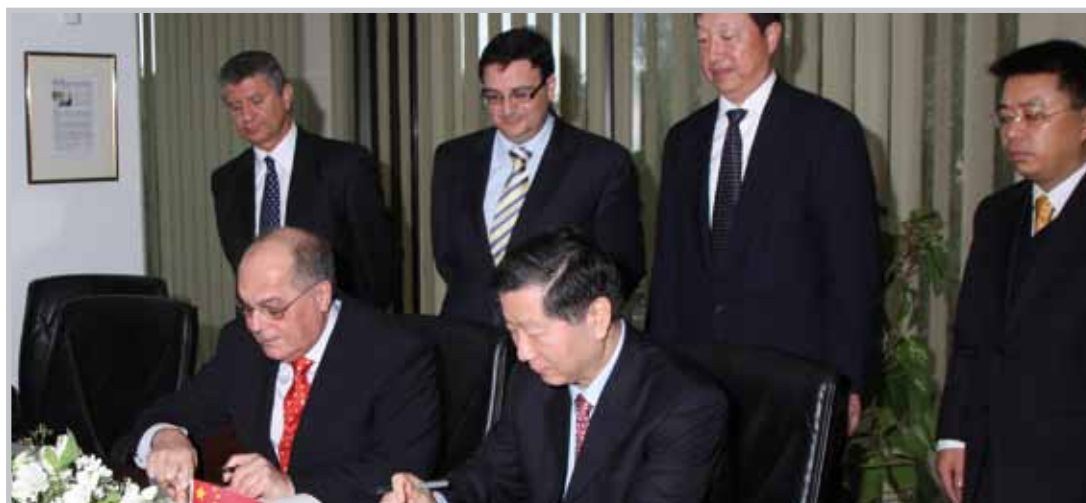
The year under review has witnessed substantial initiatives and activity on cross-border collaboration with other regulatory and supervisory authorities worldwide. Greater cross-border activities have necessitated enhanced co-ordination and co-operation by different national supervisory authorities, without which effective regulatory supervision would be hampered. In this context bilateral and multilateral memoranda of understanding (MoU) signed during 2010 play an important role.

The past year has seen the updating of a number of already existing memoranda of understanding and also the finalisation and signing of new ones. In particular, 2010 saw the conclusion and signing of important bilateral memoranda of understanding with the China Banking Regulatory Commission

and the China Securities Regulatory Commission, the Chinese authorities responsible for the regulation and supervision of banking and securities and futures respectively. These memoranda of understanding establish an arrangement for the sharing of supervisory information and enhance co-operation.

A bilateral memorandum of understanding was also concluded with the Australian Prudential Regulatory Authority, the Australian authority responsible for the supervision of authorised deposit-taking institutions (banks, building societies and credit unions), insurance and reinsurance companies, friendly societies and superannuation funds authorised to operate in Australia.

During 2010, the MFSA was also admitted as signatory to the multilateral memorandum of understanding on co-operation and information exchange of the International Association of Insurance Supervisors (IAIS), following a lengthy application process. This process involved a thorough screening and scrutiny of Malta's legislative and regulatory framework in order to ensure its compliance with the high standards expected by the International Association of Insurance Supervisors. In addition, the MFSA also started negotiating new memoranda of understanding with a number of authorities in and outside the EU, including countries in Asia and Latin America. This process should lead to concrete results in 2011. Appendix VI lists all the memoranda of understanding currently in force.



*Signing of the MoU between officials of the MFSA and the China Securities Regulatory Commission*

## THE EU AND OTHER INTERNATIONAL FORA

As the co-ordinator of matters related to the EU the Legal Unit provided regular information, advice and updates to the Ministry responsible for finance and to the EU Secretariat on the implementation of the EU's Financial Services acquis. The Legal Unit also assisted the Ministry on a large number of requests on EU financial services-related proposals. Other Supervisory Units at the MFSA were also assisted in the drawing up of transposition tables and other documentation required for EU-related purposes.

The Legal Unit was involved in monitoring legislative developments at EU level, where necessary also co-ordinating the MFSA's input and feedback on a number of papers issued by the Commission and other entities. The Unit liaised regularly with Malta's Permanent Representation in Brussels in connection with these matters.

Members of the Unit represented the MFSA in the Committee of European Securities Regulators (CESR-POL) regular meetings held throughout the year. CESR-POL is an operational sub-committee of CESR.

Enquires and issues involving financial services in the context of the World Trade Organisation and other free trade agreements were also referred to the Legal Unit.

#### UPDATING AND ENHANCING THE LEGISLATIVE REGIME

While the transposition of EU Directives into Maltese law was given priority, the MFSA, supported by the Legal Unit, also proposed a considerable number of changes to legislation in order to improve the existing framework. Some of the changes were a direct result of suggestions submitted to the MFSA by interested stakeholders.

The Legal Unit was involved in the drafting of two major pieces of legislation in 2010, the Financial Institutions and other Financial Services Laws (Amendment) Act, 2010 and the Various Financial Services Laws (Amendment) Act 2010. The former transposed the Payment Services Directive (2007/64/EC) into Maltese law while the latter introduced the concept of credit rating agencies in Malta for the first time. It also made several important amendments to other laws which served to refine and improve the legal framework and the supervisory structures.

The changes brought about by the Various Financial Services Laws (Amendment) Act 2010 moreover incorporated changes to the organisational structure of the MFSA aimed at streamlining the licensing, regulatory and supervisory functions of the Authority. A new Authorisations Unit and a Regulatory Development Unit were created to focus on the licensing and development functions respectively. Another group of amendments were aimed at strengthening the MFSA's investigative and supervisory powers, in line with the new standards and expectations being developed at EU level, in particular with the development of the new pan-European supervisory authorities. Above all the changes will enable the MFSA to better carry out its functions of supervision and oversight and facilitate collaboration and exchange of information with foreign regulatory authorities.

A considerable number of other laws and regulations were also amended or examined with a view to eventual submission to Parliament for scrutiny and enactment in 2011. This process also involves close liaison with the Ministry responsible for finance and the office of the Attorney General.

During 2010, the MFSA also responded to a total of seventy-one replies to Parliamentary Questions received through the Ministry responsible for finance on various topics. It also implemented the provisions of the newly-enacted Freedom of Information Act and changes in tendering procedures brought about by the new Public Procurement Regulations.

A number of confidential reports on other matters impacting the MFSA as a regulatory body were also prepared by the Legal Unit and submitted to the Supervisory Council and to the Board of Governors as necessary. In particular, notes were prepared on the impact of the new Whistleblowing Act and on the role and composition of the European Banking Authority, the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority, the new pan-European Supervisory Authorities which respectively replace CEBS, CESR and CEIOPS from January 2011.



## LICENSING

A total of 165 new authorisations were issued by the MFSA during the year. New licences were issued in all sectors, namely banking, insurance, pensions, investment services, and trust services. In addition, the Listing Authority approved the admissibility to listing of 29 securities.

### CREDIT AND FINANCIAL INSTITUTIONS

Two companies *FCM Bank Limited* and *IIG Bank (Malta) Limited* were licensed to carry out banking activities as credit institutions. Another company, namely *Deutsche Bank (Malta) Limited*, had its licence upgraded from a financial institution licence to a credit institution licence. In accordance with the provisions of the Banking Act, the Authority revoked the credit institution licence granted to The International Banking Corporation (Malta) plc in 2007. As at end 2010, the total number of registered credit institutions was 25, two more than in the previous year.

Table 13: Credit and Financial institutions

	Total licences at end 2008	Total licences at end 2009	Total licences at end 2010
Credit institutions	22	23	25
Financial institutions	15	15	13

Source: Malta Financial Services Authority

Early in 2010, the Authority granted a financial institution licence to *Credorax (Malta) Limited* to undertake money transmission services. *GlobalCapital Financial Management Limited* was licenced as a financial institution after *GlobalCapital Investments Limited* voluntarily merged into *GlobalCapital Financial Management Limited* and consequently, *GlobalCapital Investments Limited* surrendered its licence. During the year, two other financial institutions, namely *Medarea Forex Services Limited* and *Island Financial Services Limited* voluntarily surrendered their licences. There were 13 financial institutions registered as at end 2010.

## INSURANCE BUSINESS

The insurance sector continued to grow during 2010 with the authorisation of new licences within the various categories of the insurance business.

During the year, the Authority authorised six new insurance undertakings. *One Insurance Limited* was authorised to carry on the business of insurance in relation to five classes of the general business. *St Julians Insurance Company Limited* and *Cafina Assurances Limited* were authorised to carry on the business of insurance in respect of one class of the general business.

*AarhusKarlshamn Insurance Malta Limited* was authorised to carry on the business of affiliated reinsurance in relation to three classes of the general business while *Ortolan Reinsurance Company Limited* was licenced to carry on the business of affiliated reinsurance in respect of ten classes of the general business. A Protected Cell Company, namely *Lime Street Insurance PCC Limited*, was authorised to carry on the business of insurance and reinsurance in relation to 18 classes of the general business.

Table 14: Number of insurance undertakings

	Total licences at end 2008	Total licences at end 2009	Total licences at end 2010
Non-Life	26	30	33
Life	8	8	8
Composite	3	3	2
Reinsurance	4	4	7
Total	41	45	50
of which:			
Affiliated	6	8	10
Protected Cell Companies	3 (10 cells)	3 (12 cells)	4 (13 cells)
Insurers of domestic origin	8	8	8
Insurers of foreign origin *	2	2	2

\* Foreign insurers refer to insurance undertakings with head office outside the EU/EEA Member States and which hold an authorization under the Insurance Business Act (Cap. 403).

Source: Malta Financial Services Authority

During 2010, the Authority approved two new cells, namely cell A15 of *White Rock Insurance (Europe) PCC Limited* and *Ocado Cell* of *Atlas Insurance PCC Limited*, to write business in terms of the Companies Act (Cell Companies Carrying on Business of Insurance) Regulations, 2004. As at end 2010, there were 13 approved cells within four protected cell companies.

During the year under review, *White Rock Insurance (Europe) PCC Limited* had the licence extended to carry on business of reinsurance in Class 13 of the general business. *Bastion Insurance Company Limited* and *One Insurance Limited* had the licence extended to carry on business of

insurance in respect of classes 16 and 17 respectively. Cell A4 of *White Rock Insurance (Europe) PCC Limited* had the licence extended to write business of reinsurance in relation class 13 of the general business.

In July 2010, the Authority revoked the authorisation of *European Insurance Group Limited* in terms of Article 26 of the Insurance Business Act (Cap 403). Another insurance company, namely *Multi Risk Benefits Limited*, was granted a permit to cease to carry on direct business of insurance in terms of the Insurance Business Act (Cap. 403) and was authorised to carry on business of reinsurance only in two classes of long term business and two classes of general business.

### Insurance Intermediaries - Companies

In 2010, the Authority enrolled one new insurance manager, namely *USA Risk Group (Malta) Limited*. Early in 2010, *Heath Lambert Insurance Management (Malta) Limited* merged into *Heritage Insurance Management (Malta) Limited*. The total number of insurance managers as at end December 2010 remained unchanged at 13.

Table 15: Insurance intermediaries – Companies

	Total licences at end 2008	Total licences at end 2009	Total licences at end 2010
Enrolled Insurance Managers	12	13	13
Enrolled Insurance Agents of:			
Local Insurers	10	9	9
Foreign Insurers	11	10	10
Enrolled Insurance Brokers	28	28	28

Source: Malta Financial Services Authority

During the year, *MAX Insurance Brokers Limited* was enrolled in the Brokers List while *HSBC International Financial Advisors (Malta) Limited* voluntary surrendered the licence. The number of enrolled insurance brokers remained the same as in the previous year. There were no changes in the number of enrolled insurance agents.

### Registered Individuals

As from 1 April 2007, the Authority started registering individual applicants who have been accepted for registration under the Agents Register and the Managers Register. This is in accordance with Article 11 of the Insurance Intermediaries Act, 2006 which provides 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.

As of end 2010, there were 22 individuals registered in the Managers Register and 27 individuals registered in the Agents Register. During 2010, three individual brokers were added to the Brokers

Register while six individuals were removed from the Brokers Register on a voluntary basis. The number of registered insurance brokers as at end 2010 was 66, three less than the previous year. The number of tied insurance intermediaries accounted to 507 in 2010, seven more than the previous year.

Table 16: Insurance intermediaries – Individuals

	Total licences at end 2008	Total licences at end 2009	Total licences at end 2010
Registered Insurance Managers	20	23	22
Registered Insurance Agents	30	28	27
Registered Insurance Brokers	67	69	66
Tied Insurance Intermediaries	529	500	507

Source: Malta Financial Services Authority

## SECURITIES BUSINESS

### Investment Services

Fund servicing capabilities continued to grow, the major increase being seen in Category 2 investment services licences. As at end December 2010, the number of investment services licences totalled 102; 14 net additional licences when compared to the previous year.

Table 17: Investment services licences (2009 – 2010)

	2009			2010		
	New licences	Licences surrendered	Total licences at end 2009	New licences	Licences surrendered	Total licences at end 2010
Category 1a	1	2	11	3	0	13 <sup>6</sup>
Category 1b	1	1	3	2	0	5
Category 2	15	4	64	15	7	73 <sup>7</sup>
Category 2 & 4	0	0	3	0	0	3
Category 3	3	0	5	1	1	5
Category 3 & 4	0	0	2	0	0	2
Category 4	0	0	0	1	0	1
Total	20	7	88	22	8	102

<sup>6</sup> One licence was upgraded from Cat 1A to 2.

<sup>7</sup> One licence was upgraded from Cat 1A to 2.

Source: Malta Financial Services Authority

Twenty two new investment services licences were issued during the year. These included fifteen new Category 2 investment services licences, issued to *Praude Asset Management Limited*, *Duet Alternative Investments Malta Limited*, *Clive Capital (Malta) Limited*, *ML Capital Asset Management Limited*, *Merit Performance Concepts Limited*, *Vector Commodity Management Malta Limited*, *Innocap Global Investment Management Limited*, *Mansard Capital Management Limited*, *Culross Global Investment Management Limited*, *COMAC Capital (Europe) Limited*, *Stoneworks Asset Management (Malta) Limited*, *Numen Investments Limited*, *SphereInvest Group Limited*, *Malta Capital Management Limited*, and *CIE Management IXM Limited*.

One Category 4 licence was issued to *Deutsche Bank (Malta) Limited* while a Category 3 licence was issued to *FXDD Malta Limited*. The Authority also issued three new Category 1A licences to *Lawsons Equity Limited*, *Guardian Securities Limited*, and *FMG Capital Limited*, and two Category 1B licences to *Delta Exotics Limited* and *Upperview Financial Advisors Limited*.

Two other companies, namely *Pamplona FOF Investment Malta Limited* and *Vector Commodity Management Malta Limited* had their licences revised to include the activity of management services to professional clients. Another company, *Integradvisory Limited*, had the licence upgraded from Category 1A to Category 2.

During the year, the Authority accepted the surrender of Category 2 licences issued to *Epic Financial Services Limited*, *Amarillo Asset Partners Limited*, *DAM Malta Limited*, *Greenbay Investments Limited*, and *Lombard Asset Managers Limited*. The Authority also accepted the surrender of Category 3 licence issued to *AVA International Trading Limited*.

The surrender of a Category 2 licence issued to *Atlas Investment Services Limited* was also accepted after the latter merged with *Jesmond Mizzi Financial Services Limited* under the new name of *Atlas JMFS Investment Services Limited*. The Authority also accepted the surrender of Category 2 licence issued to *GlobalCapital Fund Advisors Limited* after *GlobalCapital Fund Advisors Limited* merged into *GlobalCapital Financial Management Limited*.

The number of recognised fund administrators at end of 2010 stood at 18 following recognition certificates issued to five new fund administrators under the Investment Services Act, namely *Folio-ITL Fund Services Limited*, *IDS Fund Services Malta Limited*, *Abacus Fund Administration Limited*, *Heritage International Fund Managers (Malta) Limited*, and *Amicorp Fund Services Malta Limited*.

Table 18: Investment services licences – Recognised Fund Administrators (2009 – 2010)

	2009			2010		
	New licences	Licences surrendered	Total licences at end 2009	New licences	Licences surrendered	Total licences at end 2010
Recognised Fund Administrators	0	3	13	5	0	18

Source: Malta Financial Services Authority

## Collective Investment Schemes (CIS)

The number of new licences issued to Collective Investment Schemes (including sub-funds) was almost at the same level of 2009. The Authority issued a total of 108 new Collective Investment Scheme licences (including sub-funds), of which 102 were Professional Investor Funds (PIFs), five UCITS sub-funds and one Recognised Private CIS. The total number of Collective Investment Schemes licences (including sub-funds) as at the end of 2010 was 410 compared to 395 in 2009. Table 19 outlines the new licences issued by the Authority, the licences surrendered, and the number of licences at the end of the year for the period 2009-2010.

Table 19: Collective Investment Schemes licences (2009 – 2010)

		2009			2010			
		New licences	Licences surrendered	Total licences at end 2009	New licences	Licences surrendered	Total licences at end 2010	
PIFs	Schemes	19	3	76	39	7	108	
	Schemes (incl. Sub-funds)	Qualifying Investor	93	48	229	95	73	251
		Extraordinary Investor	4	1	17	1	3	15
		Experienced Investor	5	3	39	6	5	40
		Total	102	52	285	102	81	306
UCITS	Schemes	1	0	4	4	0	8	
	Schemes (incl. Sub-funds)	3	9	45	5	0	50	
Non-UCITS	Schemes	0	0	12	0	1	11	
	Schemes (incl. Sub-funds)	0	3	36	0	6	30	
Foreign	Schemes	0	1	6	0	1	5	
	Schemes (incl. Sub-funds)	0	46	26	0	4	22	
Recognised Private CIS	Schemes	0	1	3	1	2	2	
	Schemes (incl. Sub-funds)	0	1	3	1	2	2	

Source: Malta Financial Services Authority

The total number of PIFs continued increasing during 2010 and as at the end of the year there were 306 authorised PIF licences, a net increase of 21 licences from the previous year. As indicated in Table 19, during the year under review, the Authority issued 102 new PIF licences, 95 targeting Qualifying Investors, one Extraordinary Investor, and six Experienced Investors. Eighty-one PIFs surrendered their licence in 2010, 73 targeting Qualifying Investors, three Extraordinary Investors, and five Experienced Investors.

## TRUST SERVICES

The total number of authorisations in terms of the Trusts and Trustees Act amounted to 117 at end 2010. During the year, the Authority issued eleven new authorisations in terms of the Trusts and Trustees Act (Cap.331). These included *FZD - Trustee and Fiduciary Services Limited*, *Elise Trustees Limited*, *Citibank International Limited*, *Integrated-Capabilities Limited*, *GVM Holdings Limited*, *Primei Fiduciary Limited*, *STM Malta Trust and Company Management Limited*, *Amicorp Malta Limited*, *W&D Fiduciary Services Limited*, and *Heritage*

*Corporate Services (Malta) Limited*. One of these authorisations, namely *W & D Fiduciary Services Limited*, was restricted to the provision of fiduciary services which do not include acting as trustee. Another authorisation, namely *Amicorp Malta Limited*, was also authorised to act as an administrator of private foundation.

*GVM Holdings Limited*, who was authorised in 2010 to provide fiduciary services, had the authorisation extended to include property received under trust and to act as a trustee or co-trustee in terms of article 43 of the Act. The Authority also issued an authorisation to one individual to act as an administrator of Private Foundations, in terms of Article 43(12)(b) of the Trusts and Trustees Act.

Table 20: Nominees, Licensed Nominees, Trusts and Authorised Trustees (2008 – 2010)

	Total authorisations at end 2008	Total authorisations at end 2009	Total authorisations at end 2010
Authorisations in terms of the Trusts and Trustees Act (Trustees/ Fiduciary Service Providers/ Administrators of Private Foundations)	98	108	117
Nominees	29	24	23
Trusts registered in terms of the Trust Act, 1988	132	117	117

Source: Malta Financial Services Authority

The coming into force of the Trusts & Trustees Act in 2005 brought the issuing of licences for trusts and nominee services to an end. Companies and individuals who held a licence to provide nominee services had until 2006 to apply for a licence to act as Trustees under the new Act. In this regard, during 2010, nominees continued to be phased out with only 23 still registered. At the end of the year, 117 trusts were still registered in terms of the Trust Act (1988).

## PENSIONS

In 2010, the MFSA started issuing the first certificates under the Special Funds Act for the setting up of retirement schemes, retirement scheme administrators, and asset managers for retirement schemes.

The Authority issued six Retirement Scheme certificates of registration, namely to *MCT Malta Private Retirement Scheme*, *Melita International Retirement Scheme Trust*, *The Dominion Malta Retirement Plan*, *The Expatriate Retirement Plan*, *STM Malta Retirement Plan*, and *The Providence Retirement Plan*.

Scheme Administrator certificates were issued to *Custom House Global Fund Services Limited*, *Dominion Fiduciary Services (Malta) Limited*, *MC Trustees (Malta) Limited*, *Blevins Franks Trustees Limited*, and *STM Malta Trust and Company Management Limited*. The Authority also authorised three new asset managers, namely *Collins Stewart (CI) Limited*, *Lombard Bank Malta plc*, and *Blevins Franks Financial Management Limited*.

Table 21: Retirement Schemes, Administrators, and Asset Managers

	Total licences at end 2010
Retirement Schemes	6
Retirement Scheme Administrators	5
Asset Managers	3

Source: Malta Financial Services Authority

## LISTING AUTHORITY

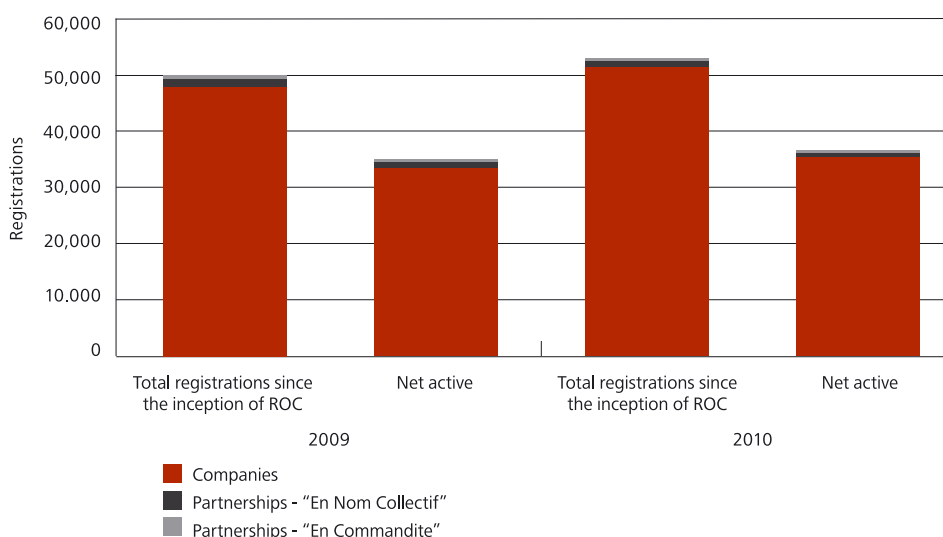
Following the appropriate evaluations undertaken by the Listing Committee, the Listing Authority approved the admissibility to listing one equity issue, 12 corporate bond issues, five Malta Government Securities issues and 11 funds (including sub-funds). The number of de-listings in 2010 amounted to 11 funds (including sub-funds).

## THE REGISTRY OF COMPANIES

### Total Registrations and Active Registrations

As at end 2010, the Registry of Companies had registered 51,575 companies, 1,305 partnerships - "En Nom Collectif" and 100 partnerships - "En Commandite" since its inception. The (net) number of active companies and commercial partnerships on the Register at the end of 2010 was as follows: 35,423 companies, 894 partnerships - "En Nom Collectif" and 71 partnerships - "En Commandite".

Chart 22: Total registrations against net active (2009 – 2010)



Source: Malta Financial Services Authority

### New Registrations

3,061 new companies were registered in the Companies Registry during 2010 (the highest number ever recorded). 69 new commercial partnerships were also registered, bringing the total to 3,130 new registrations and an increase of 452 new registrations than the previous year.

Table 22: New registrations (2008 – 2010)

	Companies	Partnerships	Total
2008	2,764	42	2,806
2009	2,612	66	2,678
2010	3,061	69	3,130

Source: Malta Financial Services Authority

## Mergers and Liquidations

There were 137 mergers of companies in 2010, while 991 companies were placed into liquidation during the year.

Table 23: Mergers and liquidation of companies (2008 – 2010)

End of year	Mergers	Total companies placed into liquidation
2008	108	646
2009	96	849
2010	137	991

Source: Malta Financial Services Authority

## Redomiciliation of companies

A number of companies transferred their domicile to Malta in terms of the Continuation of Companies Regulations under the Companies Act. The total number of inward redomiciliations at the end of the year was 64.

Table 24: Total redomiciled companies (2008 – 2010)

End of year	Total redomiciled companies
2008	46
2009	51
2010	64

Source: Malta Financial Services Authority

Twenty one companies transferred their domicile to Malta from Italy, while another nine companies transferred their domicile from British Virgin Islands. Table 25 outlines a breakdown of the redomiciled companies in 2010 by country of origin.

Table 25: Breakdown of redomiciled companies in 2010 by country of origin

Country of Origin	Number of companies
Bahamas	3
Barbados	1
British Virgin Islands	9
Cayman Islands	7
Cyprus	1
France	1
Gibraltar	2
Guernsey	2
Italy	21
Jersey	1
Liberia	2
Liechtenstein	1
Luxembourg	6
Marshall Islands	1
Monaco	1
Netherlands Antilles	3
Panama	1
Portugal	1
Total	64

Source: Malta Financial Services Authority

Table 26 represents a breakdown of the redomiciled companies in 2010 by type of operation.

*Table 26: Breakdown of redomiciled companies in 2010 by type of operation*

Type of company	Number of companies
General Trading	2
Holding	10
IT Activities	6
Marketing/Promotion/ Consultancy	8
Other	5
Private Investment	6
Property Activities	13
Real Estate	3
Securities	9
Shipping	1
Transportation	1
<b>Total</b>	<b>64</b>

Source: Malta Financial Services Authority

### Notifications for Inward Cross-Border Services

The number of notifications for the provision of cross-border services from other EU/EEA states increased further in 2010, which is further indication of the high level of integration that exists within the single market in financial services.

The below table represents a breakdown of entities that have notified the MFSA in 2010, through their home country regulator, that they will be passporting into Malta via the freedom of services.

Table 27: New notifications of passporting into Malta via the freedom of services in 2010

Category	Number of companies
European Credit Institutions	15
European Insurance Undertakings	30
European Insurance Intermediaries	317
UCITS Schemes (including subfunds)	15
Investment Services	254

Source: Malta Financial Services Authority

No notifications for the provision of cross-border services via the freedom of establishment were received during the year.

### NOTIFICATIONS FOR OUTWARD CROSS-BORDER SERVICES

The number of new notifications by Maltese companies to provide cross-border services outside Malta totalled 11 as at the end of the year. Table 28 represents a breakdown of entities that have notified the MFSA that they will be passporting outside of Malta via the freedom of services.

Table 28: New notifications of passporting outside Malta via the freedom of services in 2010

Category	Number of companies
Credit Institutions	1
Insurance Undertakings	4
Investment Services	6

Source: Malta Financial Services Authority

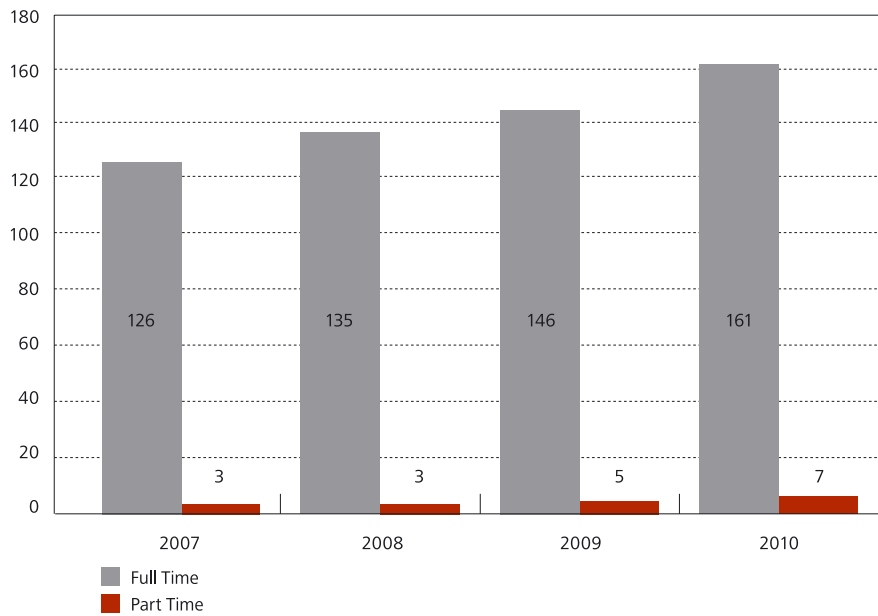


## DEVELOPMENT OVERVIEW

### HUMAN RESOURCES DEVELOPMENT

The staff complement at end of December 2010 stood at 168.

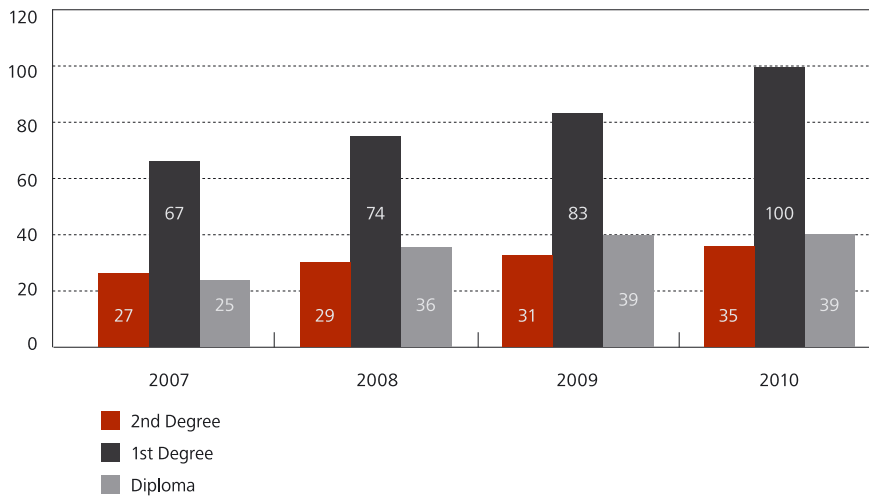
Chart 23 – MFSA Employees 2007-2010



Twenty-three new members of staff were recruited during the year and 4 staff members left the Authority.

Out of the current staff complement, 100 hold a university first degree. Of these, 35 have attained a post graduate degree or equivalent while 39 others hold diplomas in different vocational disciplines.

Chart 24 – MFSA Qualified Staff 2007-2010

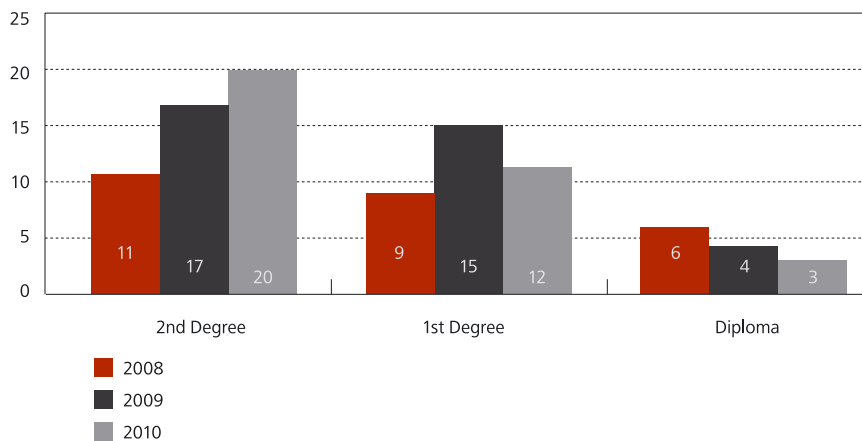


As in the past, the Authority continued with the policy of encouraging and supporting staff training and development and also assisting and co-ordinating a number of training programmes targeted towards practitioners and employees within the financial services industry. The Authority’s Human Resources and Development Unit continues to play a leading role in the running of these training programmes.

### Employee Training and Development

In line with its remit, the Human Resources and Development Unit ensured that members of staff who embarked on further studies, both to further their careers and to enhance their professional development, received the necessary guidance and advice. Under the Authority’s Self Development Scheme, at end 2010 there were 35 staff members undertaking studies that involve specialisation in a number of disciplines. These include actuarial studies, insurance related disciplines, trusts and estate management, securities and legal training related to the different areas within the finance sector.

Chart 25 - Employees Undertaking Studies during 2008 - 2010



The Authority continued to offer opportunities for its members of staff to benefit from foreign attachment programmes either within the finance industry or with related professional bodies of international repute. Added to this, a number of employees continued to build on their technical expertise by forming part of various working groups set up within the Committee of European Banking Supervisors (CEBS), the Committee of European Securities Regulators (CESR) and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). Over and above professional development attained in terms of the Self Development Scheme, a substantial number of employees also attended training programmes abroad in terms of the policy adopted by the Authority to ensure sustained employee development. These programmes were related to their day to day duties within the respective supervisory units.

Managerial staff at different levels within the Banking Supervision Unit attended training programmes focussing on off-site and on-site supervision techniques organised by Deutsche Bundesbank. Other training programmes organised by the Committee of European Banking Supervisors (CEBS) and jointly by the three European Supervisory Committees (3L3) focussed on assessment techniques of IT systems, interest risk and asset / liability management in banks, supervision of financial entities in financial conglomerates and issues related to prevention of money laundering. 2010 was also characterised by an increased involvement by senior staff within the Unit in meetings related to supervisory colleges in general and focussed meetings of supervisory colleges related to the activities of a number of banking groups operating in and from Malta. The Unit continued to strengthen its legal expertise by participating in a programme on the impact of new regulatory and supervisory rules on EU banking law, organised by the European Institute of Public Administration.

Insurance supervisors within the Insurance and Pensions Supervision Unit attended training programmes on various aspects of the Insurance Solvency II Directive and on IFRS accounting for insurance organised by the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). The Director of the Unit attended the Tri-annual meeting organised by the International Association of Insurance Supervisors (IAIS) in Basle Switzerland. Staff within the Unit also benefitted from a training programme on internal models organised by the German regulatory authority, Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), while a manager was sent on a six month attachment with the Government Actuarial Department (GAD) in the UK.

Staff within the Securities and Markets Supervision Unit attended a number of cross sector programmes on different aspects of the MiFid Directive and on corporate governance in the investment services sector organised jointly by the three European Regulatory Committees (3L3). Other training programmes attended focussed on short selling, review of the Prospectus Directive and on the practical aspects of surveillance and investigatory powers of EU financial regulators. These were organised by the Committee of European Securities Regulators (CESR). Furthermore two members of staff at the Unit had the opportunity to attend two study visits at the Commission de Secteur Financier (CSSF) in Luxembourg respectively during October and November 2010.

Staff within the Authorisation Unit attended an Arrow Risk-Based Regulation programme organised by the UK FSA.

Attendance to all the above training programmes was complementary to periodic participation by staff in the different Supervisory Units in various technical working committees set up by the three European Regulatory Committees.

### International Seminars

2010 was characterised by an increased level of involvement by the Authority, through the Human Resources and Development Unit, within the Human Resources Networks of the three European supervisory committees. As a result, the Unit was involved in the organisation and hosting of a number of regional seminars. In this regard, the MFSA organised with CEBS, CEIOPS and CESR three seminars respectively on the corporate responsibilities of directors within the banking, insurance and investment services sectors. These were held in April, May and October 2010. In addition, the MFSA hosted a training session on the use of the Transaction Reporting Exchange Mechanism (TREM) organised by CESR during June 2010.

### Industry Training

The Authority continued to give due importance to the need to enhance skills of employees within the financial services sector. During 2010, the Authority together with a number of training institutes offered programmes aimed at sustaining the developments taking place in the finance sector. Technical training workshops were organised during the year on the following topics:

- Foundation in Trust Law & Management
- Innovative Products in Financial Services
- Principles of Banking Regulation & Compliance
- Fund Accounting & Valuation
- Risk Management (Banking & Investment)

### Careers in the Financial Services Sector

In the course of the year the Human Resources and Development Unit continued to work closely with the MFSA's Education Consultative Council (ECC) by providing logistic, technical and secretarial support. The Unit Director continued to represent the MFSA on the Council.

During 2010 all members of the ECC were actively involved in the creation of a website containing factual information on careers in the financial services sector. This project was undertaken in collaboration with the Malta Chamber of Commerce Enterprise and Industry, and FinanceMalta. This project was fully supported and financed by the MFSA and the technical process was undertaken by the Authority's ICT Unit.

The website is expected to be launched during the first quarter of 2011 ([www.careersinfinance.mfsa.com.mt](http://www.careersinfinance.mfsa.com.mt)), and will provide up to date information related to career possibilities within the finance sector and the ways in which these can be exploited. The website will target secondary and post-secondary school students, students studying at tertiary level, parents, career advisors and counsellors and persons seeking alternative employment.

Besides this new development, a number of career promotion and awareness measures were undertaken under the auspices of the Council during 2010. These consisted in career orientation visits by secondary school students to the Authority's offices.

Around 700 students (about 200 more than the previous year) were provided with a structured overview

of financial services and career opportunities that are expected to arise within the sector over the short to medium term. The students also benefitted from exposure to topics related to financial literacy.

During 2010, efforts to adopt a more practical approach in the promotion of careers in financial services continued. As in 2009, the Unit in conjunction with the Career Guidance Unit within the Education Division and the Secretariat for Catholic Education co-ordinated for the second year running a job exposure programme under the auspices of the MFSA Education Consultative Council. Seventy seven (77) secondary school students (as against 60 during 2009) at higher levels had the opportunity of a job exposure to different work environments. In recognition of the need to tangibly promote careers in finance, nineteen organisations (as against thirteen in 2009) covering the whole spectrum of the local financial sector participated in the programme, together with the MFSA. At the end of their experiences, students were awarded a certificate of achievement issued jointly by the ECC and the Career Guidance Unit/Secretariat for Catholic Education at an awarding ceremony that took place on the 23rd July 2010. This activity was well attended by the students, their parents and also representatives from the financial sector organisations and firms involved in the programme.

Following this encouraging outcome it is expected that this project will be once again undertaken during the summer of 2011 (hopefully on a larger scale) by involving not only more employers but also students from the various Independent Schools/Colleges besides those in State and Church Schools.

## EDUCATION CONSULTATIVE COUNCIL

### INTRODUCTION

During 2010, the financial services sector continued to experience sustained growth. This has resulted in an increased level of demand for qualified persons. This trend is expected to continue since employment opportunities are anticipated to increase further in the coming years.

In view of the relevance and impact of the accountancy and auditing profession on the finance industry, the Malta Institute of Accountants was invited to become a member of the Council as from mid-2010. The Council is currently comprised of representatives from the Malta Financial Services Authority, the Malta International Training Centre (MITC), the Institute of Financial Services – Malta (IFS), the Institute of Financial Services Practitioners (IFSP), the Society of Trust and Estate Practitioners – Malta (STEP), the Institute of Legal Studies (ILS), the Institute of Directors – Malta (IoD), the Career Guidance Unit of the Education Division, the Malta College of Arts, Science & Technology (MCAST) through the Institute of Business and Commerce, and the Malta Institute of Accountants (MIA).

During 2010, the Council met 6 times. Members of the Council continued to play an important role in the process of collaboration and information sharing in the areas of career guidance, vocational training, continuous professional development and creation of new training programmes. Also the Council through the MFSA maintained its periodic contact with the University of Malta, particularly the Faculty of Economics, Management and Accountancy (FEMA). In the year under review, the Education Consultative Council (the Council) continued to build upon the targets achieved during 2009. The various initiatives initiated and/or co-ordinated by the Council continued to support the efforts being undertaken by the MFSA, the national authorities and the finance industry to promote growth, innovation and expansion of the pool of human resources required by the finance sector.

In this regard, during 2010 the number of persons who formally qualified or who attended courses that are relevant to the financial services sector was one thousand and eighty four. The courses were organised by training institutions that formed part of the Council in collaboration and/or with the support of the MFSA.

## CAREER PROMOTION AND AWARENESS

### Career Orientation Visits

Career promotion and awareness were undertaken during career orientation visits by secondary school students at the MFSA. The programme for these visits was implemented by the MFSA in collaboration with the Career Guidance Services Unit within the Education Division and the Secretariat for Catholic Education and targeted mainly for students attending forms IV and V in Government and Church schools. A number of Independent Schools also took part in the programme on request.

### Annual Meeting with School Counsellors and Career Advisors

The annual meeting organised by the Council for school counsellors and career advisors was held in October 2010.



*Council for school counsellors and career advisors' annual meeting - October 2010*

This event is now an established forum during which the Council receives feedback on the various career related initiatives it undertakes. It also provides an opportunity for participants to suggest new initiatives.

This year's event was mainly a question and answer session with the Chairman of the MFSA Prof. Joe V Bannister, during which participants were informed of developments affecting employment within the sector, current and expected skills related demands and new career paths that are envisaged in view of the expansion that is being experienced by the sector.

Possible enhancements to the Job Exposure Initiative were also addressed. Another issue raised related to more effective means through which careers in the finance sector can be promoted. In this regard, participants were informed on progress that was being made with regards to the careers website.

## INFORMATION AND COMMUNICATION TECHNOLOGY

### Infrastructure Development

Apart from the on-going administration and support tasks, a number of infrastructure projects were implemented during 2010 to provide more efficient and robust ICT facilities to the organisation. All office workstations were upgraded with the latest versions of Microsoft Windows and Office, thereby ensuring more reliable and efficient use. Additionally, other office tools were enabled allowing for the formulation of complex documents. A new platform has helped in the implementation of the Archiving solution from Microsoft Exchange.

This platform also projects other benefits such as: lower system prerequisites, simpler navigation, improved multitasking, greater stability, enhanced security, simpler file handling, optimised networking and overall improved performance.

A new Enterprise Storage System has been implemented to reduce the risk of downtime, business interruption and data loss.

The main site storage solution is now able to cater for 12.8 Terabytes of storage space. The solution is also capable to support online LUN growth thus complementing the current 24x7 operation and is designed to sustain a fully redundant operation, a high level of reliability with high performance levels.

The solution is formulated in a modular approach namely: dual controllers, dual switches, and dual power supplies and is capable of deleting unstructured LUNs, support enterprise class dual-ported SAS drives, large form factor drives, a powerful controller, via easily administered functions and support snapshotting.

A new internal email architecture based on Exchange 2010 has been implemented and to increase resiliency, various servers were used to separate different roles, namely Mailbox, Client Access, Hub Transport, Management and Logging. The server is connected with the Storage Area Network. All Units are each catered with two databases, one for the active mailboxes and one for the archive solution. This setup was configured to increase availability and to reduce maintenance time. All mailbox databases are replicated over the wide area connection to the offsite office where another server resides. Both mailbox servers communicate with the Active Directory for authentication and validation of mail traffic

Video Conferencing facilities have been introduced to improve communications with other Authorities and companies.

An HDX 8000 codex unit serves as the main controller of the video conference having diverse configurations in place. The primary service of this unit is to dial or accept video conference calls which can be established using the voice-over-IP technology by using packet switched technology or ISDN technology which uses a dedicated circuit switch approach.

Wireless Network facilities in meeting rooms and conference rooms have also been implemented thereby allowing convenient internet access to visitors and conference participants.

### Software Development

Further enhancements were implemented during 2010 to the Registry of Companies (ROC) Online System to improve the electronic signing of forms. Online filing functionality not only provides the most important official registry forms being ready available (i.e. Form Z - Annual Return; Form T - transfer/transmission of shares; Form K - Notification of changes amongst directors) but also web forms for the users to fill in the required information and then sign and submit to the Registry of Companies. However, in the case of other official forms, users may now browse their prepared .DOC/.PDF documents stored on their personal PC, sign and forward to the Registry of Companies.

In cases when documents being uploaded are in .DOC format, a document conversion mechanism has been implemented which converts .DOC formats into .PDF format. This allows end-users to also download a soft copy of the electronically-signed form in .PDF format. For the conversion mechanism, the OpenOffice.org open source productivity suite was utilised. This new functionality has been developed in a generic and preparatory manner so that, when required in future, approved authorized users will also be allowed to upload .XBRL-instance documents using the same mechanism.

This level of functionality makes it imperative that a nationally-agreed XBRL taxonomy (for the filing of companies' financial statements) has to be adopted and made available by practitioners so that export of prepared financial statements in XBRL format can be made from operational software applications (e.g. MS-Excel). This functionality may be switched on with minor effort and all registered authorized users may profit from this service once XBRL taxonomy is made available by the national accounting and auditing bodies.

A signing process was developed using the E-Lock SuperSigner SDK which is a web-based digital signing solution for integration. This SuperSigner SDK allows the user to sign and verify the files, forms or any data. Apart from signing and verification, SuperSigner SDK also supports multiple signatures, third party time stamping, PKI based encryption-decryption and embedded digital signatures in the PDF and PDF/A files in Adobe compatible format, which can be verified through Adobe Reader inherently. Based on the Secure Socket Layer (128-bit SSL) protocol, which is the standard mechanism used by web browsers to encrypt information, all information being exchanged will be in encrypted format to ensure that no-one can intercept and read any information being exchanged. This level of functionality continues to make the signing process in the ROC Online system fully compliant with the EU Directive (1999/93/EC) for electronic signatures and the Electronic Commerce Act (Cap. 4). The ROC Online System was selected as one of the systems to be used for the e-Government benchmarking exercise conducted annually across all EU member states. The system was presented at the workshop organized between the 7th and 12th June 2010 by COMNET for the Commonwealth members entitled "Legal Frameworks for ICTs - Building Capacity and Implementing Regulation".

During 2010 a significant effort was made to upgrade/replace various websites hosted at MFSA and any of its active committees, namely:

- *www.mfsa.com.mt* – development and implementation of a new MFSA website using the latest state-of-the-art technologies. The new site came online in December 2010;
- *www.mymoneybox.mfsa.com.mt* – development and implementation of additional web services offered through the consumers' website;

- [www.compensationschemes.mfsa.com.mt](http://www.compensationschemes.mfsa.com.mt) – revamp of the depositor compensation scheme website;
- [www.carreersinfinance.mfsa.com.mt](http://www.carreersinfinance.mfsa.com.mt) – development and implementation of a new website forming part of a larger project by the Education Consultative Council to promote careers in the finance services sector;
- [www.rocsupport.mfsa.com.mt](http://www.rocsupport.mfsa.com.mt) – development and implementation of a new website offering additional free ROC supporting services.

The tools mainly used for the development of these websites include (a) .NET framework-related technologies, mainly C#; XML; HTML; CSS; MSSQL and (b) internet information services webserver (IIS). The ICT unit is also involved with the regulatory and supervisory units on various applications discussed at meetings of the European Supervisory Authorities. A recent requirement being discussed at the European Insurance and Occupational Pensions Authority (EIOPA) is to implement a central database in order to adopt a harmonised approach in the collection and sharing of information amongst members. This includes the format of the Solvency II reporting requirements.

There are several different opinions on this project. Whereas EIOPA seems to favour the adoption of XBRL as the reporting medium, various European national authorities are more inclined to adopt an XML-based solution, especially since they have significant investment in this methodology. The MFSA is closely observing and participating in the various surveys being commissioned by EIOPA.

The development of Transaction Reporting Exchange Mechanism (TREM) with the Securities and Markets Supervision Unit is an ongoing process, particularly with the upgrade of the system from version 2.1 to version 3.0. The main components of the system include automatic uploading/downloading of transaction files to/from the central HUB deployed at the European Securities and Markets Authority (ESMA) using secure protocols like SFTP; decryption/encryption of files using GnuPG which is a set of tools that can be used for encrypting, compressing and signing messages; XML validation and parsing of received transaction files and subsequent storage in the backend MSSQL database for further reporting. This system was developed in-house using Java technology.

The Unit participates in one of the European Banking Authority IT subgroups looking at the development of an IT-platform for its data needs. The Banking and Supervision Unit will need to be able to connect to the new platform as data-providers or data-recipients. In the next couple of months several subsystems will be implemented by EBA which the ICT Unit will need to follow:

- Reporting application which will receive the key risk indicators reports from the national authorities for the defined sample set of financial institutions. Reports can be sent in different formats (including XBRL, XML and CSV files).
- Secure email facilities will become available for usage to exchange confidential information between MFSA staff in the Banking Supervision Unit and EBA staff.
- A supervisory college tool will be implemented in a number of home supervisory countries and hosting countries will be asked to hook up to the new facilities.

## COMMUNICATIONS

The Authority's initiatives regarding communications remained focused and committed to sustaining growth in the financial services sector. The Authority continued developing a communications strategy of securing a wider reach to audiences around the world.

The international events' schedule for 2010 clearly indicates that the Authority selected strategically important meetings where it could meet international practitioners and debate topics of mutual interest. The European Captive Forum held in Luxembourg in October, and which was organised by the European Captive Insurance and Reinsurance Owners' Association (ECIROA) and the Captive Insurance Companies Association (CICA), was one such gathering where issues of Solvency II and the protected cell company were debated. A Round Table Discussion organised by Private Wealth Management (PWM) in November provided an ideal opportunity for the Authority to discuss the role of financial intermediaries in providing investment advice and wealth management.

The Authority also attended a meeting organised by INFORMA IIR & IBC Financial Events on Re-domiciliation of Investment Funds held in Geneva in March.

In April, a seminar on Risk and Insurance was organised in Brussels by Commercial Risk Europe with the support of the Authority while in May the Authority participated in a regulatory panel at the International Bar Association (IBA) conference on Alternative Investment Funds held in Boston.

In Malta, the Authority also continued to be involved in a number of events highlighting regulatory and policy developments.



In June 2010, Malta hosted Europe's premier network management conference organised by NeMa for Network Managers and Post-Trade Players. This conference resulted in a very high level of international attendees from custodial companies and transfer agents.

The Malta International Risk and Insurance Congress organised by Commercial Risk Europe that was held in November 2010, was a continuation of previous successes in hosting an international conference on insurance risk in Malta.

Other local meetings that were selected and assisted by the Authority included FIMBank's Trade Finance & Correspondent Banking Conference held in February, and a seminar on Trusts organised by the International Association of Young Lawyers (AIJA) in October.

In June CESR organised in Malta a joint training seminar on TREM3.0 for IT project managers in charge for the local implementation of the Transaction Reporting Exchange Mechanism (TREM).



*CEBS Seminar on TREM 3.0*

In collaboration with the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), the Authority held a regional seminar in April on the corporate responsibilities of directors of insurance companies. The following month a CEBS Seminar on Internal Governance within the banking industry was held.



*CEBS Seminar on Internal Governance*

Finally, the Authority also assisted Malta's hosting of the Commonwealth Association of Public Administration and Management (CAPAM) Conference held in October.

In the course of the year, the Authority maintained its support for the national branding initiative by providing assistance and support to FinanceMalta.

The Authority also participated in international publications that covered various features of Maltese financial services. These included publications such as HFMweek, Commercial Risk Europe,

Grip Magazine, Captive Review, FT Business - The Banker, The UK Daily Telegraph, Hedge Week, FTSE Global Markets magazine, Strategic Risk, Businesslife Magazine, Mena Fund Managers, and International Advisor.

At the local level, the authority provided features and updates in the Times Business newspaper and Economic Update magazine.

### Web Applications

During 2010, 533 enquiries were received through the Authority's web portal. This is a 20% increase in enquiries over the preceding year thereby confirming a continued increase in interest in the Authority and in Malta as a financial jurisdiction.

The Communications Unit continued to enhance its e-contact databases that were being used to reach out to stakeholders and the wider community both at a global and local level.

During the year continuous updates were applied to the Authority's Internet and Intranet Websites while work on the Authority's new Internet Website neared completion by December.

The Communications Unit continued to logistically support events and meetings held at the Authority's premises. During 2010 these totalled 125.

### Ancillary

News coverage of both local and foreign media sources was on going. The Unit continued to participate in the Committee of European Banking Supervisors and in the Committee of European Securities Regulators' Press Officers meetings.

The application in 2010 of the Freedom of Information Act was also undertaken by the Unit.

## CONSUMER AFFAIRS

The Consumer Affairs Unit comprises the functions of the Consumer Complaints Manager, who is empowered by law to investigate complaints from private individuals relating to any financial services transaction in a fair and impartial manner. The Unit is also responsible for providing consumer education and information about financial services and to answer queries from the public on financial services matters in general. The Unit also assists the MFSA to identify new issues as well as new developments which may affect consumer confidence.

The Consumer Complaints Manager provides administrative support to and is also the Secretary of the Compensation Schemes Management Committee which administers the Depositor Compensation Scheme and the Investor Compensation Scheme. The Consumer Complaints manager is also the secretary of the Protection and Compensation Fund.

During the year, the Unit received 172 formal complaints and 188 verbal complaints. A total of 149 cases were reviewed and concluded, which include a number of cases received in 2009.

Table 29: Analysis of complaints against licence holders and queries handled in 2009 and 2010

	Formal Complaints						Verbal Complaints		Queries	
	Cases Received		Cases Closed*		Pending cases		2010	2009	2010	2009
Complaints related to:	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Banking	39	59	42	49	11	26	43	62	147	174
Insurance	86	167	85	167	32	29	88	91	258	222
Investments	42	90	22	41	97	65	53	39	168	147
Others	5	8	4	6	5	3	4	66	48	70
<b>Total</b>	<b>172</b>	<b>324</b>	<b>153</b>	<b>263</b>	<b>145</b>	<b>123</b>	<b>188</b>	<b>258</b>	<b>621</b>	<b>613</b>

\* Includes cases received in 2009 and 2008

A substantial number of outstanding complaints were related to investments, most of which were cases which had been submitted to the Unit in 2008. The complexity of the issues surrounding these cases, which allege mis-selling and bad advice, severely delayed the Unit's efforts to conclude a number of open investigations by end of the reporting year.

As part of the Unit's investigations, the Securities & Markets Supervision Unit (SMSU) was actively consulted for assistance and guidance on various aspects, including the application and interpretation of investment services directives. The Consumer Complaints Manager, in liaison with the SMSU, also referred a number of these cases, together with its findings, to the Supervisory Council for its consideration.

The Unit has been very active in the broadcasting media which is considered to be an important platform through which consumers are educated on various matters relating to financial services. On average, Unit officials participated in three television programmes and two radio broadcasts almost on a weekly basis to discuss a wide range of financial subjects and issues relevant to the rights of consumers purchasing financial products.

The consumer portal "MyMoneyBox" has proved to be a key website providing impartial information to consumers about financial products and services. A monthly electronic newsletter is also sent to subscribers of the portal. The site is updated regularly and new information is added on a monthly basis. Complainants may now also lodge a formal complaint online, with the added benefit that attachments may be uploaded and attached to the complaint form. Statistically, the most accessed section of the portal is the on-line database of tariffs and charges levied on a number of financial products and services. The Unit will in the near future be widening the scope of the online database by including comparative features of available specific financial products.

The Consumer Complaints Manager continues to be a member of FIN-NET, the European out-of-court network for the resolution of disputes between consumers and financial services providers.

The Consumer Complaints Unit is also an active member on the CEIOPS Committee on Consumer Protection.

A full report on the activities of the Office of the Consumer Complaints Manager is published separately.



## APPENDICES

### APPENDIX I - ACTS, LEGAL NOTICES AND GOVERNMENT NOTICES

#### ACTS

- Act No. II of 2010 Financial Institutions and other Financial Services Laws (Amendment) Act, 2010
- Act No. XIX of 2010 entitled the Various Financial Services Laws (Amendment) Act, 2010.

#### LEGAL NOTICES

##### Banking Act

- LN 109 of 2010 Depositor Compensation Scheme (Amendment) Regulations, 2010

##### Insurance Business Act

- LN 61 of 2010 Insurance Business (Penalties for Offences and Infringements) (Amendment) Regulations, 2010

##### Insurance Intermediaries Act

- LN 60 of 2010 Insurance Intermediaries (Penalties for Offences and Infringements) (Amendment) Regulations, 2010

##### Investment Services Act

- LN 59 of 2010 Investor Services Act (Exemption (Amendment) Regulations, 2010

##### Companies Act

- LN 243 of 2010 Companies Act (Cell Companies Carrying on Business of Insurance) Regulations, 2010
- LN 559 of 2010 Companies Act (SICAV Incorporated Cell Companies) Regulations, 2010
- LN 561 of 2010 Companies Act (Amendment of the Tenth Schedule) Regulations
- LN 558 of 2010 Companies Act (Incorporated Cell Companies Carrying on Business of Insurance) Regulations, 2010

##### Financial Markets Act

- LN 443 of 2010 Notice of coming into force of the Designated Financial Instruments Regulations, 2009
- LN 498 of 2010 Appointment of Listing Authority (Revocation) Order, 2010
- LN 530 of 2010 Financial Markets Act (Credit Rating Agencies) Regulations, 2010

### Prevention of Financial Markets Abuse Act

- LN 294 of 2010 Prevention of Financial Markets Abuse (Disclosure and Notification Amendment) Regulations, 2010

### GOVERNMENT NOTICES

- Government Notice No.16 Appointment of Compensation Scheme Management Committee in terms of the Investor Compensation Scheme Regulations, 2003
- Government Notice No.17 Appointment of Protection and Compensation Fund Management Committee in terms of the Protection and Compensation Fund Regulations, 2003
- Government Notice No.18 Appointment of Compensation Schemes Management Committee in terms of the Depositor Compensation Scheme Regulations, 2003

## APPENDIX II – RULES - ISSUED/REVISED

### BANKING RULES

- Banking Rule 1 of 2010 Application Procedures and Requirements for Authorisation of Licences for Banking Activities under the Banking Act 1994
- Banking Rule 2 of 2010 Large Exposures of Credit Institutions authorised under the Banking Act 1994
- Banking Rule 3 of 2010 Own Funds of Credit Institutions Authorised under the Banking Act 1994
- Banking Rule 4 of 2010 Capital Requirements of Credit Institutions Authorised under the Banking Act 1994
- Banking Rule 7 of 2010 Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994. (Effective from 31 Dec 2010)
- Banking Rule 8 of 2010 Capital Adequacy of Credit Institutions Authorized Under the Banking Act 1994
- Banking Rule 10 of 2010 Supervision on a Consolidated Basis of Credit Institutions authorised under the Banking Act 1994
- Banking Rule 12 of 2010 The Supervisory Review Process of Credit Institutions Authorised Under The Banking Act 1994

### FINANCIAL INSTITUTIONS RULES

- Financial Institution Rule 1 of 2010 Application Procedures and Requirements for Authorisation of Licences under the Financial Institution act 1994

### INVESTMENT SERVICES RULES

- Investment Services Rules for Investment Services Providers
- Investment Services Rules for Professional Investor Funds

## APPENDIX III - CIRCULARS

### CIRCULARS ISSUED BY THE SECURITIES AND MARKETS SUPERVISION UNIT

- Circular Regarding the Alternative Investment Management Directive ('AIFMD')
- Circular regarding possible legislative changes to the UCITS Directive
- Circular Regarding the Issue of Updated Investment Services Rule for Professional Investor Funds
- Publication of Revised Appendix 1 and Appendix 2 to Part B of the Investment Services Rules for Investment Services Providers
- Notice to financial services licence holders - Sanctions and measures adopted by the United Nations and the European Union
- MFSA Notice - UK FSA Consultation Paper on Tracing Employers Liability Insurance
- 7th Circular addressed to the Malta Funds Industry regarding UCITS IV
- 6th Circular addressed to the Malta Funds Industry regarding UCITS IV
- MFSA circular addressed to the Investment Services Licence Holders re CESR consultation paper "CESR Technical Advice to the European Commission in the context of the MiFID Review – Client Categorisation"
- Circular addressed to Company Secretaries of Listed Entities and Stockbrokers
- 5th Circular addressed to the Malta Funds Industry regarding UCITS IV
- Circular to Listed Companies regarding Transparency through the Company's web-site
- MFSA Feedback to Common Reporting (COREP) Consultation
- Circular regarding the MFSA Guidance Note on the use of Side Pockets by Collective Investment Schemes and issue of Guidance Note
- Circular addressed to the investment services industry regarding the transposition of the articles of the Capital Requirements Directive relating to supervision on a consolidated basis
- Circular addressed to the Malta Funds Industry on the harmonised definition of European Money Market Funds
- Circular to the Malta funds industry Distribution of Malta Domiciled Funds in Singapore
- Circular addressed to the Investment Services Industry regarding non-equity markets transparency in the context of the EU Markets in Financial Instruments Directive ('MiFID')
- Circular addressed to Investment Services Licence Holders
- 4th Circular addressed to the Malta Funds Industry regarding UCITS IV
- Circular addressed to Non-UCITS Fund Managers regarding the proposed changes to the applicable financial resources requirement
- MFSA guidance Note for Shariah Compliant Funds
- Circular addressed to the Banking Sector regarding the fourth set of amendments to the Capital Requirements Directive (CRD IV)
- Circular addressed to the Investment Services Industry regarding the CRD IV
- Circular addressed to the Investment Services Industry regarding the recent developments relating to the Capital Requirements Directive (CRD)
- Circular addressed to the Financial Services Industry regarding Master-Feeder Structures for Professional Funds targeting Qualifying or Extraordinary Investors
- Circular on investments by credit and financial institutions in companies authorised to carry on general insurance business
- 3rd Circular addressed to the Financial Services Industry regarding UCITS

## CIRCULARS ISSUED BY THE INSURANCE AND PENSIONS SUPERVISION UNIT

- MFSA Notice - Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)
- MFSA 4th Circular - Quantitative Impact Study 5 to Insurers
- MFSA 3rd Circular - Quantitative Impact Study 5 to Insurers
- MFSA 2nd Circular - Quantitative Impact Study 5 to Insurers
- The System of Governance under Solvency II
- MFSA 1st Circular - Quantitative Impact Study 5 to Insurers

## APPENDIX IV - CONSULTATION PAPERS

### CONSULTATION PAPERS ISSUED BY THE BANKING SUPERVISION UNIT

- Consultation Document on the proposed Financial Institutions Act (Safeguarding of funds) Regulations 2010

### CONSULTATION PAPERS ISSUED BY THE INSURANCE AND PENSIONS SUPERVISION UNIT

- Consultation on the Level 2 implementing measures for Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)
- Consultation document on draft Amendments to the Companies Act (Incorporated Cell Companies Carrying on Business of Insurance) Regulations 2010
- Consultation Paper proposing amendments to Insurance Intermediaries Rule 13 of 2007 – ‘Monies held in a fiduciary capacity’
- Circular addressed to Enrolled Insurance Brokers/Agents/Managers

### CONSULTATION PAPERS ISSUED BY THE SECURITIES AND MARKETS SUPERVISION UNIT

#### Consultation papers on proposed amendments to the Investment Services Act

- Consultation document on draft regulations on Contractual Funds in terms of the Investment Services Act 1994 – Feedback Statement
- Consultation on draft regulations on Contractual Funds in terms of the Investment Services Act 1994 – Revised version of the Investment Services Act (Contractual Funds) Regulations 2010
- Consultation on draft regulations on Contractual Funds in terms of the Investment Services Act 1994 – Proposed Draft Rules applying to the use of the SPVs by Contractual Funds

#### Consultation papers on proposed amendments to Financial Markets Act

- Financial Markets Act (Credit Rating Agencies) Regulations 2010
- Draft Financial Collateral Arrangements (Amendment) Regulations, 2011

#### Consultation papers on proposed amendments to the Listing Rules

- Consultation Document issued on proposed amendments to Chapters 1,2,3,5,8,11,14,16 and Appendix 8.1
- Consultation Document issued on proposed amendments to Chapter 15 on the Listing Rules
- Consultation Document on Listing Authority Policies
- Listing Authority Policies – Feedback Statement further to response by the industry pursuant to consultation document on Listing Authority Policies

#### Consultation paper on MiFID

- Circular addressed to the Malta Stock Exchange and the Financial Services Industry regarding the Public Consultation of the Review of the Markets in Financial Instruments Directive (MiFID)

### Consultation paper on proposed amendments to the Prevention of Financial Market Abuse

- Consultation document on the Prevention of Financial Markets Abuse Act (Disclose and Notification) (Amendment) Regulations 2010

### Consultation papers on proposed amendments to Companies Act

- Consultation document and Explanatory Note on proposed amendments to the Companies Act Tenth Schedule Regulations 2010
- Consultation Note – Proposals for Legal Notices / Ministerial Regulations and for new laws and amendments to existing laws – Draft Financial Collateral Arrangements (Amendment) Regulations, 2011

### EU CONSULTATION PAPERS CIRCULATED BY MFSA

- Circular addressed to the Malta Stock Exchange and Investment Services Licence Holders regarding the EU Markets in Financial Instruments Directive
- Consultation published by Commissioner Services (DG Internal Market) 2.12.2010
- Circular regarding the Public Consultation launched by the European Commission on the Review of the MiFID

## APPENDIX V – LICENCES ISSUED AND LICENCES SURRENDERED

### LICENCES ISSUED

#### BANKING

##### Credit Institutions

- Credit Institution licence issued to Deutsche Bank (Malta) Limited.
- Credit Institution licence issued to IIG Bank (Malta) Limited.
- Credit Institution licence issued to FCM Bank Limited.

##### Financial Institutions

- Financial Institution licence issued to Credorax (Malta) Limited.
- Financial Institution licence issued to GlobalCapital Financial Management Limited.

#### INSURANCE

##### Insurance Companies

- Licence issued to One Insurance Limited to carry on business of insurance in four classes of the general business.
- Licence issued to Lime Street Insurance PCC Limited to carry on business of insurance and reinsurance in 18 classes of the general business.
- Licence issued to Cafina Assurances Limited to carry on business of insurance in respect of one class of the general business.
- Licence issued to St Julians Insurance Company Limited to carry on business of insurance in respect of one class of the general business.
- Licence issued to Ortolan Reinsurance Company Limited to carry on business of reinsurance in respect of ten classes of the general business.
- Licence issued to AarhusKarlshamn Insurance Malta Limited to carry on business of affiliated reinsurance in respect of three classes of the general business.

##### Protected Cells

- A15 has been approved as a cell of White Rock Insurance (Europe) PCC Limited.
- Ocado Cell has been approved as a cell of Atlas Insurance PCC.
- South Risk Management Cell has been approved as a cell of Abacus Risk Management Services PCC.

##### Enrolment of Insurance Managers

- USA Risk Group (Malta) Limited has been granted enrolment in the Managers List.

### Enrolment of Insurance Brokers

- MAX Insurance Brokers Limited has been granted enrolment in the Brokers List.

### Extensions/Revisions

- Extension of licence issued to White Rock Insurance (Europe) PCC Limited to carry on business of reinsurance in Class 13 - General Liability.
- Extension of licence issued to A4 (a cell of White Rock Insurance (Europe) PCC Limited) to carry on business of reinsurance in Class 13 - General Liability.
- Extension of licence issued to Bastion Insurance Company Limited to carry on business of insurance in Class 16 – Miscellaneous Financial Loss.
- Extension of Licence issued to One Insurance Limited to carry on business of insurance in Class 17 – Legal Expenses.
- Revision of licence issued to Multi Risk Benefits Limited to carry on business of reinsurance only.

## SECURITIES

### Investment Services

- Category 1A Investment Services Licence issued to Lawsons Equity Limited.
- Category 1A Investment Services Licence issued to Guardian Securities Limited.
- Category 1A Investment Services Licence issued to FMG Capital Limited.
- Category 1B Investment Services Licences issued to Delta Exotics Limited.
- Category 1B Investment Services Licences issued to Upperview Financial Advisors Limited.
- Category 2 Investment Services Licence issued to Praude Asset Management Limited.
- Category 2 Investment Services Licence issued to Duet Alternative Investments Malta Limited.
- Category 2 Investment Services Licence issued to Clive Capital (Malta) Limited.
- Category 2 Investment Services Licence issued to ML Capital Asset Management Limited.
- Category 2 Investment Services Licence issued to Merit Performance Concepts Limited.
- Category 2 Investment Services Licence issued to Vector Commodity Management Malta Limited.
- Category 2 Investment Services Licence issued to Innocap Global Investment Management Limited.
- Category 2 Investment Services Licence issued to Mansard Capital Management Limited.
- Category 2 Investment Services Licence issued to Culross Global Investment Management Limited.
- Category 2 Investment Services Licences issued to COMAC Capital (Europe) Limited.
- Category 2 Investment Services Licences issued to Stoneworks Asset Management (Malta) Limited.
- Category 2 Investment Services Licences issued to Numen Investments Limited.
- Category 2 Investment Services Licences issued to SphereInvest Group Limited.
- Category 2 Investment Services Licences issued to Malta Capital Management Limited.
- Category 2 Investment Services Licences issued to CIE Management IXM Limited.
- Category 3 Investment Services Licence issued to FXDD Malta Limited.
- Category 4 Investment Services Licences issued to Deutsche Bank (Malta) Limited.

### Investment Services – Extensions, Revisions and Mergers

- A revised Category 2 Investment Services Licence issued to Pamplona FOF Investment Malta Limited to include the provision of Management Services to Professional Clients.

- A revised Category 2 Investment Services Licence issued to Vector Commodity Management Malta Limited to include the provision of Management Services to Professional Clients.
- Licence issued to Integradvisory Limited has been revised from a Category 1A to a Category 2.
- Atlas Investment Services Limited and Jesmond Mizzi Financial Services Limited merged into Atlas JMFS Investment Services Limited.
- GlobalCapital Fund Advisors Limited merged into GlobalCapital Financial Management Limited.

### Recognised Fund Administrators

- Certificate issued to Folio-ITL Fund Services Limited.
- Certificate issued to IDS Fund Services Malta Limited.
- Certificate issued to Abacus Fund Administration Limited.
- Certificate issued to Heritage International Fund Managers (Malta) Limited.
- Certificate issued to Amicorp Fund Services Malta Limited.

### Collective Investment Schemes

#### Professional Investor Funds – Qualifying Investors

- Collective Investment Scheme licences issued to Accuris Funds SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licence issued to ACL Fund SICAV Limited in respect of one sub-fund.
- Collective Investment Scheme licence issued to Active Investments SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Alphabetos Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Altma Funds SICAV plc in respect of 11 sub-funds.
- Collective Investment Scheme licences issued to Ananea Funds SICAV plc in respect of three sub-funds.
- Collective Investment Scheme licence issued to BC European Capital IX in respect of one sub-fund.
- Collective Investment Scheme licence issued to BlackSun Investments SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Burren Global Arbitrage Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Burren Global Arbitrage Master Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Creative Investments SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licence issued to CTH SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Cygnus SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licences issued to Cygnus Master SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licences issued to DTMR Management SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licence issued to EOS SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to EYRY IV Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Global Fund Holdings SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Hamble Investment Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Horizon Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Innocap Fund SICAV plc in respect of five sub-funds.

- Collective Investment Scheme licences issued to InvestInvent Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to JW Partners SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Level E Capital SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Litmus Umbrella SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to LL Global Fund Series SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Mansard Capital SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licence issued to Marlon Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Meridon Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to NEF Funds SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to NBCG Fund SICAV plc in respect of 15 sub-funds.
- Collective Investment Scheme licences issued to Novium Opportunity Umbrella SICAV in respect of three sub-funds.
- Collective Investment Scheme licences issued to Orange Capital Funds SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licences issued to Pan European Umbrella SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licences issued to PMG Focus Funds SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licences issued to Polystone SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licence issued to PrimValue (Malta) SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Privaxis Umbrella Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Psi Capital SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Resco Funds SICAV plc in respect of three sub-funds.
- Collective Investment Scheme licence issued to Royal Rainbow Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to Shelter Island SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licence issued to Solar Investments Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Specialist Selection Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licences issued to TGA Funds SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licence issued to Vector Commodity Master Fund SICAV Limited in respect of one sub-fund.
- Collective Investment Scheme licence issued to Vector Commodity Fund Malta SICAV plc in respect of one sub-fund.
- Collective Investment Scheme Licence issued to Venus Multi Strategy Fund SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to Willer Opportunities (Malta) SICAV Limited in respect of one sub-fund.

#### Professional Investor Funds – Experienced Investors

- Collective Investment Scheme licence issued to Altarius Crystal SICAV plc in respect of one sub-fund.
- Collective Investment Scheme licence issued to JFP Investments SICAV Limited in respect of one sub-fund.
- Collective Investment Scheme licence issued to LL Global Fund Series SICAV plc in respect of one sub-fund.

- Collective Investment Scheme licences issued to PMG Focus Funds SICAV plc in respect of two sub-funds.
- Collective Investment Scheme licence issued to Mutinae Spectator SICAV plc in respect of one sub-fund.

#### Professional Investor Funds – Extraordinary Investors

- Collective Investment Scheme licence issued to CTH SICAV plc in respect of one sub-fund.

#### UCITS

- Collective Investment Scheme licence issued to Capital Strategy Funds SICAV plc.
- Collective Investment Scheme licence issued to Dominion Global Finance Fund SICAV plc.
- Collective Investment Scheme licence issued to Dominion Global Trends SICAV plc.
- Collective Investment Scheme licence issued to Fraternitas SICAV plc.

#### Private Schemes

- Collective Investment Scheme licence issued to Scotchstone Capital Fund Limited.

#### Collective Investment Schemes – Revisions/Mergers

- A revised Collective Investment Scheme licence issued to InvestInvent Funds SICAV plc.
- A revised Collective Investment Scheme licence issued to Hermes Linder Fund SICAV plc to carry out the activities of a Maltese UCITS Scheme.
- Amstel Global Umbrella Fund SICAV plc was authorised the merger of two sub-funds.
- Lloyds TSB Offshore Funds Limited was authorised the merger of three of its sub-funds.

#### Trustees and Fiduciaries

- Authorisation issued to FZD – Trustee and Fiduciary Services Limited to receive property under trusts and to act as trustee or co-trustee.
- Authorisation issued to Elise Trustees Limited to receive property under trusts and to act as trustee or co-trustee, as well as to act as administrator of private foundations.
- Authorisation issued to Citibank International Limited - having permission from the UK Financial Services Authority under Part IV of the Financial Services and Markets Act 2000 of the United Kingdom to act as trustee and depositary of UK collective investment schemes, to receive property under trusts and to act as trustee or co-trustee.
- Authorisation issued to Integrated-Capabilities Limited having permission from the Isle of Man Financial Services Commission to act as a corporate services provider (class 4) and as a trust services provider (Class 5) in terms of the Financial Services Act 2008 (Chapter 8), to receive property under trusts and to act as trustee or co-trustee.
- Authorisation issued to Primei Fiduciary Limited to receive property under trusts and to act as a trustee or co-trustee.
- Authorisation issued to STM Malta Trust and Company Management Limited to receive property under trusts and to act as trustee or co-trustee.
- Authorisation issued to Heritage Corporate Services (Malta) Limited to receive property under trusts and to act as a trustee or co-trustee.
- Authorisations issued to Amicorp Malta Limited to act as an administrator of private foundations and to act as trustee or co-trustee.

- Authorisation issued to GVM Holdings Limited to provide fiduciary services and to receive property under trusts and to act as trustee or co-trustee.
- Authorisation issued to W&D Fiduciary Services Limited to provide fiduciary services which do not include acting as trustee.

## PENSIONS

### Retirement Schemes

- Certificate of Registration issued to MCT Malta Private Retirement Scheme.
- Certificate of Registration issued to Melita International Retirement Scheme Trust.
- Certificate of Registration issued to The Dominion Malta Retirement Plan.
- Certificate of Registration issued to The Expatriate Retirement Plan.
- Certificate of Registration issued to STM Malta Retirement Plan.
- Certificate of Registration issued to The Providence Retirement Plan.

### Retirement Scheme Administrators

- Certificate of Registration issued to Custom House Global Fund Services Limited.
- Certificate of Registration issued to Dominion Fiduciary Services (Malta) Limited.
- Certificate of Registration issued to MC Trustees (Malta) Limited.
- Certificate of Registration issued to Blevins Franks Trustees Limited.
- Certificate of Registration issued to STM Malta Trust and Company Management Limited.

### Asset Managers

- Certificate of Registration issued to Collins Stewart (CI) Limited.
- Certificate of Registration issued to Lombard Bank Malta plc.
- Certificate of Registration issued to Blevins Franks Financial Management Limited.

## LICENCES SURRENDERED

### BANKING

#### Credit Institutions

- Revocation of licence granted to The International Banking Corporation (Malta) plc.

#### Financial Institutions

- Voluntary surrender of licence issued to Medarea Forex Services Limited.
- Voluntary surrender of licence issued to Island Financial Services Limited.
- Voluntary surrender of licence issued to GlobalCapital Investments Limited.

## INSURANCE

- Revocation of licence issued to European Insurance Group Limited.
- Voluntarily surrender of Zopa Cell an approved cell of Atlas PCC Limited.
- HSBC International Financial Advisors (Malta) Limited ceased to operate as an enrolled insurance broker.

## SECURITIES

### Investment Services

- Voluntary surrender of Category 2 licence issued to Epic Financial Services Limited.
- Voluntary surrender of Category 2 licence issued to GlobalCapital Fund Advisors Limited.
- Voluntary surrender of Category 2 licence issued to Lombard Asset Managers Limited.
- Voluntary surrender of Category 2 licence issued to Atlas International Services Limited.
- Voluntary surrender of Category 2 licence issued to Amarillo Asset Partners Limited.
- Voluntary surrender of Category 2 licence issued to DAM Malta Limited.
- Voluntary surrender of Category 2 licence issued to Greenbay Investments Limited.
- Voluntary surrender of Category 3 licence issued to AVA International Trading Limited.

### Collective Investment Schemes

#### Professional Investor Funds – Qualifying Investors

- Voluntary surrender of licence issued to Renaissance Institutional Futures Fund SICAV plc
- Voluntary surrender of licence issued to Virgo Global Equity Fund SICAV plc.
- Voluntary surrender of licence issued to Golden Hedge Umbrella SICAV plc in respect of one sub-fund.
- Voluntary surrender of licence issued to V.I.P. Select Funds SICAV plc in respect of one sub-fund.
- Voluntary surrender of licence issued to RBAM II Funds SICAV plc in respect of one sub-fund.
- Voluntary surrender of licences issued to NBCG Fund SICAV plc in respect of 55 sub-funds.
- Voluntary surrender of licences issued to Altma Fund SICAV plc in respect of 10 sub-funds.
- Voluntary surrender of licence issued to Swiss Investments Funds SICAV plc in respect of one sub-fund.
- Voluntary surrender of licences issued to Alphabetos International Funds SICAV plc in respect of two sub-funds.

#### Professional Investor Funds – Experienced Investors

- Voluntary surrender of licence issued to Amstel Global Umbrella Fund SICAV plc in respect of one sub-fund.
- Voluntary surrender of licences issued to FMG Funds SICAV plc in respect of three sub-funds.

#### Professional Investment Funds – Extraordinary Investors

- Voluntary surrender of licence issued to Virgo Global Equity Master Fund SICAV plc.
- Voluntary surrender of licences issued to Alphabetos International Funds SICAV plc in respect of two sub-funds.

### Non – UCITS

- Voluntary surrender of licences issued to La Valette Funds SICAV plc in respect of two sub-funds.
- Voluntary surrender of licence issued to Lombard Funds SICAV plc in respect of one sub-fund.
- Voluntary surrender of licences issued to HSBC Malta Funds SICAV plc in respect of two sub-funds.
- Voluntary surrender of licence issued to HSBC Structured Funds SICAV plc in respect of one sub-fund.

### Foreign Based Retail Funds

- Voluntary surrender of licence issued to Barclays Investment Funds (Channel Islands) Limited.  
Voluntary surrender of licence issued to Lloyds TSB Offshore Funds Limited in respect of three sub-funds.

### Private Schemes

- Voluntary surrender of licence issued to 12P SICAV plc.
- Voluntary surrender of licence issued to Pulse SICAV plc.

### Trustees and Fiduciaries

- Voluntary surrender of authorisation issued to Dixcart Management (IOM) Limited.
- Voluntary surrender of authorisation issued to Auberges Trustees Limited.
- Voluntary surrender of warrant issued to Management Services International (Nominee) Company Limited.

## APPENDIX VI - MEMORANDA OF UNDERSTANDING IN FORCE

Entity	Scope of Agreement
<b>Bilateral MoUs with Foreign Regulators</b>	
Australian Prudential Regulation Authority	Banking and Insurance
Banco de Portugal	Credit institutions
Banking Regulation and Supervision Agency	Banking
Banking, Finance and Insurance Commission	Banking
Bermuda Monetary Authority	Insurance, Credit Institutions and Trusts
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Banking, Securities and Insurance (Primarily Banking)
Capital Markets Board of Turkey (Semaye Piyasasi Kurulu)	Securities
Cayman Islands Monetary Authority	Credit Institutions, Insurance, Securities and Trusts
China Banking Regulatory Commission	Banking
China Securities Regulatory Commission	Securities
Comissão de Mercado de Valores Mobiliários	Securities
Commissione Nazionale per le Società e la Borsa (CONSOB)	Securities
Credit Institutions	Credit institutions
De Nederlandsche Bank N.V. (DNB)	Banking
Dubai Financial Services Authority	Securities, Credit Institutions, Insurance and Trusts
Financial Market Authority	Credit institutions
Financial Services Authority	Banking, Insurance, Investment Services
Financial Services Board	Securities, Insurance and Pension Funds
Financial Services Commission	Securities and Banking
Financial Services Commission	Securities, Insurance and Pensions
Financial Services Commission.	Banking, Securities and Insurance.
Guernsey Financial Services Commission	Banking, Investment Services, Insurance and Fiduciary Services
Insurance and Pensions Authority	Mutual assistance and exchange of information
Jersey Financial Services Commission	Mutual assistance and exchange of information
National Bank of Slovakia	Banking
Swiss Financial Market Supervisory Authority (FINMA)	Banking and Securities

<b>Multilateral MoUs and Protocols</b>	
CEIOPS	Insurance and Occupational Pensions
CESR	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
<b>Bilateral MoUs with Local Authorities</b>	
Central Bank of Malta	Payment and Securities settlement 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 For Fair Competition	Mutual assistance and exchange of information

## APPENDIX VII – PENDING APPEALS BEFORE THE FINANCIAL SERVICES TRIBUNAL

- 1) Christopher J. Pace v. MFSA (Case Ref: FST3/09)  
An appeal from a penalty imposed by the MFSA for alleged insider dealing in GlobalCapital plc shares.
- 2) James Blake v. MFSA (Case Ref: FST5/09)  
An appeal from a penalty imposed by the MFSA for alleged insider dealing in GlobalCapital plc shares.
- 3) Nicholas Portelli v. MFSA (Case Ref: FST04/09)  
An appeal from a penalty imposed by the MFSA for alleged insider dealing in GlobalCapital plc shares.
- 4) European Insurance Group Ltd v. MFSA (Case Ref: FST01/10)  
An appeal from a decision of the MFSA to revoke the company's licence to carry on insurance business.
- 5) Mediterranean Investment Holdings plc v. MFSA (Case Ref: FST02/10)  
An appeal from a decision of the MFSA to impose a penalty for unauthorised changes to an approved prospectus.
- 6) Rizzo Farrugia & Co (Stockbrokers) Ltd. v. MFSA (Case Ref: FST03/10)  
An appeal from a decision of the MFSA to impose a penalty for breaching the duties of a sponsor and unauthorised publication of a prospectus not as approved by the Listing Authority.

**MFSA**

**MALTA FINANCIAL SERVICES AUTHORITY**

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