



GOVERNMENT
OF MALTA

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FOREWORD

**Our mission
to build a sustainable,
diversified economy for the
benefit of all Maltese**

Clyde Caruana

Minister for Finance and Employment

FOREWORD

COVID has been a difficult time for all countries and Malta has been no exception.

The Government has dug deep to support citizens and businesses alike during these unprecedented times, offering wage support, additional social benefits and tax cuts. As Finance Minister, I am pleased to sustain this support programme: preserving the foundations of our economy will enable us to bounce back quickly after the pandemic is defeated.

We now begin 2021 with cautious optimism: the inoculation of our population provides a light at the end of the tunnel, promising a resumption in normal life soon. But our future prosperity cannot just depend on handouts and a return to 'normal' post-crisis. Our ultimate goal is to continue building a diversified economy that welcomes entrepreneurs, supports innovation, and sustains highly skilled and well-paid jobs for all.

In this last respect, the Government laid the foundations for a stronger economy with its innovative employment policies back in 2014. We pioneered the introduction of free childcare and school breakfast clubs to increase female participation in the workforce, as well as tapered social benefits to support low wage earners and 'make work pay'. These policies were highly effective in reducing unemployment and boosting economic growth which in turn have helped our country to weather well the crisis brought about by the global pandemic.

Now we must take stock of our employment policies and address the new challenges that have emerged.

We are determined to continue supporting and sustaining the increase in the female participation and persons with disabilities in the workforce. We must also address the prevalent skills gap in Malta and the need for wage increases backed by increases in productivity in certain sectors. That is why, late last month, I announced a consultation process with a view to unveiling a new employment policy by October this year, and I encourage all stakeholders including the business community to participate in this consultation.

A healthy, diversified economy must also embrace sound regulation and the rule of law. The recent Moneyval report highlighted areas for improvement in our ability to fight financial crime. I am proud that significant progress has been made in this regard, in spite of the considerable upheaval caused by Covid, and its impact on our Courts, law enforcement and regulatory capabilities. I am particularly pleased that our financial watchdogs have sustained and enhanced their mission during difficult times.

The MFSA's December dashboard shows the Authority almost doubled inspections and examinations in 2020, leading to a jump in enforcement actions and fines, and underscoring the returns we are seeing from the sustained investment in capacity building and training.

Meanwhile, Malta's Centralised Bank Account Registry is up and running, overseen by the FIAU. The Authority has also successfully implemented its goAML platform. Together, these tools will increase the regulator's ability to fight financial crime including money laundering.

Let us not rest on our laurels. There is plenty more work to be done if we are to rebuild back better our economy, stabilise our finances, and secure the prosperity of future generations of Maltese to come. I look forward to sharing our strategy for achieving these goals in the near future.

FIAU and MFSA issue fresh guidance on updated Company Service Providers Act

The FIAU and MFSA have both issued new guidance ahead of the coming into force of Act L of 2020, which amends the Company Service Providers Act.

Under the new legislation, currently exempt warrant holders and other individuals who act as company service providers ('CSPs') including lawyers and accountants, must be authorised by the MFSA. The Act aims to raise the bar with respect to CSPs to address anti-money laundering recommendations made by MONEYVAL in its recent assessment of Malta.

CSPs help to set up and run companies registered in Malta. They act as gatekeepers with respect to risks posed to the jurisdiction, including the prevention of money laundering and funding of terrorism. The number of providers in Malta has grown exponentially over the past few years, as the island continues to attract international business to its shores. Following the revised Act, it is envisaged that approximately another 600 persons who are currently exempt will be providing company services in terms of the Company Service Providers Act.

The FIAU's guidance, issued in December last year, provides sector-specific implementing procedures including guidance on the application of the customer due diligence obligations arising from the Prevention of Money Laundering and Funding of Terrorism Regulations.

The FIAU guidance addresses in particular the key role of Customer Due Diligence (CDD) in sector-specific situations, namely:

- CDD on intermediaries and agents;
- Assessing and obtaining information on the purpose and intended nature of the business relationship, and establishing the customer's business and risk profile;
- Ongoing monitoring;
- The timing of CDD obligations; and
- The termination of business relationships.

Additionally, the MFSA published a new rule book, which was under consultation until 15 January 2021. It addresses the categorisation of company service providers into classes depending on the services offered and removes the exemption for warranted persons and other individuals offering Company Service Provider services. The Rulebook is now fully aligned with the Act and ensures that the proportionality principle is applied. It also establishes detailed rules on governance systems, core functions and capital requirements expected of Company Service Providers as well as transitory periods, where applicable. With regard to the removal of exemption for warranted persons and other persons currently exempt, the Rulebook outlines the criteria for those classes considered as 'under threshold' where a proportionate regulatory approach will apply in line with the Feedback Statement to the Consultation Document issued in April 2020.

The amendments to the Company Services Act and subsequent guidance address the issues highlighted by the NRA and create a culture of closer scrutiny by CSPs to help identify problematic cases sooner, therefore directly supporting the activity of the FIAU and MFSA.

MFSA unveils new supervisory and effectiveness dashboard

Launched in April 2020, the dashboard collates on a monthly basis progress made by the MFSA against full year targets and key metrics.

The most recent dashboard, for December 2020 shows that the Authority exceeded targets on most of its metrics, despite the impact to business-as-usual operations caused by Covid-19.

As part of its regulatory engagement, the MFSA is organising more workshops, training and seminars to raise compliance standards across the industry and enhance its skill sets. The Authority had planned on hosting 153 training and workshop seminars in 2020, but far exceeded that target with 219 sessions in total, of which 61 were focused on AML/ CFT and 156 were focused on supervision and conduct.

Despite the challenges of working safely during COVID-19, onsite inspections were nearly double that of 2019 (227), with 419 inspections and examinations having taken place in 2020, against a projected target of 350. Nearly half were also integrated Conduct and Prudential and AML/CFT inspections, which had been introduced from 1 July 2019.

As a result of increased onsite examinations and pending cases, the number of enforcement actions have increased and are expected to continue increasing. Fines issued for 2017 – 2019 amounted to a combined total of €1.2m, in comparison in 2020 alone, administrative penalties imposed amounted to a total of €975,462 (including a notional penalty of €475,192).

The MFSA has demonstrated a continued commitment to meeting and exceeding key performance indicators on regulatory oversight and enforcement effectiveness. The dashboard underscores the progress made in capacity building and resourcing, training and educational activities, enforcement actions and on-site examinations under unprecedented conditions. New targets for 2021 are set to be published with the next iteration of the dashboard.

MFSA Training & Workshops Seminars



Onsite inspections & examinations in 2020



Fines issued for 2017 - 2019

€1.2 million

Fines issued for 2020 alone

€975,462

Malta's CBAR registry goes live, speeding up financial investigations in another AML boost

Malta's Centralised Bank Account Registry or CBAR is now up and running. The registry was developed by the FIAU as a tool to assist the fight against financial crime. CBAR lists all IBAN accounts, issued by Maltese credit and financial institutions. In addition, any institutions providing safe custody services and safe deposit boxes are also to register these in the system. IBAN, or international bank account numbers, are used when making or receiving payments.

Previously, the FIAU would manually request account information from individual banks in a labour-intensive exercise that took days to complete. In 2020 the FIAU sent out more than 10,000 manual requests for account information to banks as the authority stepped up anti-money laundering investigations. In addition to the FIAU that is already making use of CBAR, in the coming weeks, tax authorities, law enforcement and other competent bodies will also be granted access to the new registry for accurate and up-to-date financial data in a matter of seconds, greatly speeding up investigations.

The successful launch of CBAR in the space of less than a year is due to intense work by the FIAU and the close collaboration with the credit and financial institutions in Malta, therefore helping to overcome a demanding implementation timeframe in the midst of the pandemic. During this period, the FIAU held a series of webinars for financial institutions in order to help them prepare for the launch of the registry and better understand their obligations in terms of data provision.

“The Nature and Art of Financial Supervision”: MFSA unveils new reports on supervision and effective risk management

The MFSA has published the first two papers in a series of sector-specific publications from its Supervision Directorate. The papers describe how the Authority regulates and supervises the Maltese banking sector, specifically credit institutions, as well as Virtual Financial Agents.

The papers, designed for service providers, offer an overview of supervisory work conducted over the past year and identify the main findings and risks present. Moreover, institutions are invited to use the publication as guidance and conduct a self-assessment exercise in order to benchmark themselves against the recommendations being made and subsequently address any weaknesses identified, as appropriate.

Both documents also set out areas of focus for the supervision of each sector, which will also be used in the annual Supervisory Review of banks and VFAs to deliver improvements in their risk management.

The series will continue into 2021 with additional publications on other subsectors.

FIAU ramps up resources for 2021

The FIAU hired around 30 additional employees to bolster its ranks in 2020, taking the total headcount to 100 and up from just 50 two years earlier. With the increased investments made in the Unit, it has been possible for the Authority to embark on a multi-year programme of development, as it ramps up resources to fight money laundering and terrorism financing.

The FIAU plans to make further increases to its headcount to reach just over 150 by the end of 2021, as well as to continue to invest in the necessary IT tools, resources and staff development and training. More staff enables more inspections and compliance reviews, which are already bearing fruit. The outcomes of this investment have been clearly reflected in both supervision and enforcement activities. In 2020, the FIAU issued numerous administrative measures including, among others, 20 administrative penalties from compliance reviews to the tune of EUR 3.8 million across all supervised subject persons. Apart from administrative penalties the FIAU also takes other administrative measures and has, in 2020, imposed a total of 30 remediation directives on subject persons to take remedial actions for the breaches identified. Furthermore, penalties totalling approximately EUR 860,000 were issued in relation to failings by subject persons to adhere to submit, in a timely manner, the obligatory Risk Evaluation Questionnaire or for failing to respond to requests for information made by the authority.

Moreover, since June 2020, both the FIAU and most of the subject persons have successfully implemented the GoAML system, a fully integrated software solution developed specifically for use by FIUs developed by the UN Office on Drugs and Crime. The system has helped both increase the amount and quality of information received, which is reflected in the processed - rejected ratio for reports received, where more reports are now accepted without further corrections requested by the FIAU.

The analytical process has been updated in GoAML to reflect the FIAU workflow. The process has constantly improved since implementation through various calibrations, such as the introduction of new templates in the

communication with subject persons that automatically include details of persons and entities for which queries are sent. Efficiencies like these have also been created in dissemination of intelligence, which is now faster, more accurate and enables the inclusion of supporting documents automatically.

In order to continue optimising the use of features offered by goAML, the FIAU has updated the list of indicators from 1 January 2021 to better capture similar characteristics from reports in a more granular manner, to improve data collection and the capacity of typology identification. This will enable better strategic analysis, as well as more specific replies to queries received from national and supranational bodies.

In light of the added resource and digital investment, the FIAU believes that it will be able to fulfil its main strategic objectives for 2021, which are:

- Continue increasing its workforce in order to ensure that it can fulfil to the best possible ability its key functions of Intelligence Analysis, Supervision, Enforcement and CBAR.
- Support Subject Persons to understand their AML/CFT obligations through training and informative publications.
- Increase not only the quantity of STRs received but also the quality.
- Improve internal processes to ensure that targets are met, and quality of work and output continue to increase.
- Raise the bar in the supervision process and perform risk-based supervision to the highest standards and effectiveness work towards a smooth transition on all levels to the new premises

MFSA supervision to focus on governance and financial crime compliance in 2021

The MFSA is focusing its supervision of authorised entities on specific areas including corporate governance and financial crime compliance.

The Authority recently published updates on the priority areas of focus for supervision for this year, following careful consideration of the market environment and regulatory developments. Five cross-sectoral priorities have been identified for 2021, namely:

1. Corporate Governance and Culture:

Supervisory work carried out in 2020 led to the identification of areas where further improvement on the part of authorised entities may be required. The MFSA will be communicating its expectations in this respect as part of a project which will lead to the development of a new Corporate Governance Code for regulated entities. The Authority is cognisant of the ever-increasing importance of ESG considerations when it comes to company culture and work shall also be undertaken in this respect.

2. Financial Crime Compliance (FCC):

In addition to continuing its positive collaboration with the FIAU, the Authority will continue building on work performed in 2020 in monitoring the compliance of regulated persons with AML/CFT obligations. Furthermore, the FCC function will issue periodic publications to update the industry of developments concerning AML/CFT and the current status of the AML regime within the industry itself.

3. The impact of COVID-19:

Throughout 2021, the Authority will continue monitoring the impact of COVID-19 on the financial services sector, particularly the post-COVID viability of regulated entities' business models, including their capacity to cope with the operational consequences it will have, alongside the impact on consumers of financial services.

4. ICT Risk and Cybersecurity:

The Authority's newly set up ICT Risk and Cybersecurity function will continue to ensure that regulated entities have an adequate cybersecurity programme in place designed to enhance resilience to cyber-attacks and mitigate the risks associated with such threats. The team will also be designing an ICT and Cybersecurity Risk model for supervision and carrying out education and awareness sessions for stakeholders. Moreover, there are also plans to conduct thematic desk-based reviews on a sectoral basis on ICT Risk and Cybersecurity matters, including outsourcing to cloud services providers.

These priorities are complementary to the investor protection, market integrity and financial soundness objectives underpinning financial regulation, which remain at the forefront of the Authority's agenda. Sector specific priorities are also discussed in the document but will be highlighted in "The Nature and Art of Financial Supervision" series, which you can read more about on page 7.



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Contributing Institutions