

Malta Financial Services Authority



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Malta Financial Services Authority

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Chairman's Statement

The Malta Financial Services Authority (MFSA) is pleased to present its report on the activities and operations carried out in 2004.

A year of history, change and success

2004 was an historic year for Malta and for the MFSA. It witnessed the country becoming a full member of the European Union and marked the 10th anniversary of the founding of the Malta Financial Services Centre, which later became the MFSA.

2004 was also a wholly successful year for the Authority. Its work load grew substantially to meet the demands of EU membership. It handled a record number of new licence applications from Maltese and international concerns, processed the first applications from local businesses preparing to passport products into the EU and many others from companies in other EU countries seeking passporting into Malta. The Companies Registry recorded an 11 per cent increase in the number of new companies registered. The number of companies registered in Malta is at an all time high.

The new offices of the Companies Registry, that provide a modern and efficient environment for visitors and staff, were completed in late 2004. The Registry also launched a new web-based company information system that paves the way for the electronic filing of documentation.

Immediately following the accession of the country into the EU, the level of enquiries from overseas financial services companies interested in operating in Malta increased sharply and has remained high since.

Good progress has been made in our current key target areas of professional investor funds and captive insurance and we welcomed a new banking presence. There are encouraging early signs that the country's new Trusts and Trustees Act will open up a new international market.

The Authority places great emphasis on improving the consumer's ability to make better informed judgements in managing personal finances and in providing impartial machinery to handle consumer complaints. Consumer education initiatives were taken in print and broadcast form and the public's awareness of the role and function of the Authority's Office of the Complaint's Manager rose substantially.

We established an Information Office to handle press inquiries and act as an information channel to the public, organised technical seminars on a range of industry EU related matters and worked with other Maltese business and educational bodies on improving the range and quality of professional development courses available in the country. Once again we worked with the local media in jointly hosting training events to improve their understanding of how the finance industry works and how journalists in other countries report consumer finance issues.

A highlight of the year was a conference the MFSA hosted and organised to mark the end of the ten year programme to put Malta in the mainstream of EU jurisdictions. The speakers from overseas were of the highest calibre and came from the EU Commission, the International Monetary Fund and the Committee for European Securities Regulators. All of them spoke highly of Malta's progress and healthy international reputation as a finance centre.

Professionalism and dedication

The MFSA's progress across all its activities could not have been achieved without the professionalism and dedication of every member of staff. When an overseas financial services business is considering opening operations in a new jurisdiction the speed, efficiency and expertise of the local regulator plays a key part in decision making. The MFSA's staff are therefore not only meeting the needs of the existing financial community, but also making a contribution to building favourable international perceptions of Malta.

In thanking the Authority's staff, I also wish to thank my fellow Governors for giving so productively their skills and guidance.

Income rises, cost control

In response to the increased level of financial services activity in Malta, and in order that the country complies with its international obligations and provides a high quality service to all its stakeholders, MFSA staff numbers grew during the year from just over 100 to 120. I am delighted therefore to record that, despite the increase in workload and staff numbers, the Authority has kept its operating costs under control, grew its income and met its financial obligations to the country.

This achievement not only demonstrates the Authority's careful stewardship of the income it receives in fees and charges, but also sends the signal to foreign finance business considering a Maltese presence that Malta has a well managed and efficient regulatory authority.

International affairs

During 2004, the MFSA signed formal memoranda of understanding with eight foreign jurisdictions, including the United Kingdom and the Federal Republic of Germany. Staff from all of the regulatory units of the Authority participated in a number of EU working groups and committees and attended conferences and seminars of global policy and supervision bodies.

Much of the work we are involved with on the EU stage is in the formulation and development of legislative policy and in finding routes to improve the efficiency of Europe's single market in financial services. This is work of the highest importance to the EU's competitiveness and of Malta's. The finance industry in the EU has voluntary structures that work with the EU in policy development and on the implementation of legislation and regulation. The MFSA would welcome greater involvement by Maltese finance industry bodies and individuals in EU-wide industry organisations.

On the international media stage, Malta once again benefited from overwhelmingly favourable in-depth coverage in a range of prestigious and influential publications. Many focussed on the country's competitive advantages as a new EU member.



Legislation

The Banking, Insurance and Investments units all issued directives during the year, many of which, in line with Malta's EU obligations, have the force of law. The most important piece of domestic legislation that involved heavy commitment from the Authority was the Trusts and Trustees Act, which came into force early in 2005.

Securing future progress

The fundamental aim of the reform strategy begun in 1994, and which has enjoyed the continuing support of government and opposition parties, was to make financial services a cornerstone in Malta's knowledge-based economy.

Throughout the ensuing decade our finance industry grew at a steady pace in terms of people employed, range of products and services, new ventures by Maltese and overseas businesses and in its contribution to the national economy.

More importantly for the long term development of the industry, Malta's international standing as a highly responsible and efficient jurisdiction has been recognised and endorsed by all of the key regional and global financial policy and policing organisations. Malta's finance industry today is self-confident and growing and the world has confidence in Malta as a good place to do business.

We cannot, of course, rest on our laurels. With Malta's accession to the EU, a new phase has begun. Now we have to build on the firm foundations we have created and capitalise on the opportunities EU membership brings us.

At present, Malta enjoys significant operating cost benefits over many of its competitor jurisdictions.

If Malta's development as a finance jurisdiction follows a similar path to many long-established jurisdictions, our very success is likely to erode our current cost advantage. Increasingly, in future, it will be the quality of service, the quality of people and the quality of their skills that will keep us a competitive and attractive location. That is why the MFSA places such strong emphasis on continuing

education and training in the finance industry. Deep product knowledge, high standard professional skills, excellent customer service and unquestionable integrity are the qualities we need to encourage and nurture to achieve sustainable growth in our finance sector. These are the tangible and enduring elements that will help us build a bigger finance sector and help protect the country from the vagaries of economic cycles and marketplace changes in the long term.

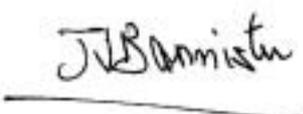
One of the challenges faced by those responsible for the promotion of Malta's attractions as a finance centre is addressing key audiences in an EU market of 25 countries and 400 million people. For a small economy of limited financial and human resources this is a significant communications hurdle to overcome. Focussing on the potentially most rewarding markets and sectors makes sense and using imaginative communications techniques will help maximise return on marketing investment. However, the most powerful form of public relations is word of mouth. Put simply, the higher the standards in every part of the Maltese financed industry, including the MFSA, the more we will be spoken well of in the EU and across the world, and the more people will beat a path to Malta's door.

Growth and diversity

Despite considerable uncertainty in global financial markets, economics, and politics in 2004, Malta's financial services industry continued to grow and diversify.

EU membership has brought the country to a crossroads in the evolution of its financial services economy. We now have the opportunity for long and sustained growth in the sector. Building on the successes of the past decade will require focus, energy and commitment from many public and private sector bodies in Malta.

For our part at the MFSA we will continue to invest in our people, in our quality of service delivery and in technology, so that the country, the industry and the international community can have ever greater confidence in what we do, how we do it and what we say.



J. V. Bannister

MFSA Structure



Left to right: Mr. F. Xerri de Caro, Mr. J.V. Laspina, Prof. C.J. Farrugia, Mr. M.C. Bonello, Prof. J.V. Bannister, Mr. A. Attard, Dr. A. Felice, Dr. D. Fabri

Board of Governors

Chairman

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

Members

Mr. Michael C. Bonello, M.A. (Oxon), FCIB

Dr. Anton Felice, LL.D.

Mr. Joseph V. Laspina

Mr. Frank Xerri de Caro, ACIB

Prof. Charles J. Farrugia, Ph.D (Lond.)

Mr. Albert Attard

Secretary

Dr. David Fabri, LL.D.

Supervisory Council

Chairman

Dr. Andre Camilleri, LL.D.

Director General

Members

Dr. Marisa Attard, LL.D

Director - Insurance

Ms. Cristina Parlato Trigona, B.A. (Hons) Accty; MSc. (Reading); CPA; ASI

Director - Investment Services

Mr. Karol Gabarretta B.A. (Hons.) Econ.; M.A. (Fin. Serv.)

Director - Banking

Dr. Anton Bartolo, LL.D.

Director - Company Compliance & Company Registrar

Secretary:

Mr. Ray Camilleri

Board of Management and Resources

Chairman

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

Members

Mr. Charles Zammit, D.B.A., M.B.I.M
Director - Administration

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

Mr. Paul Vella, B.A. (Hons.) Bs. Mgt.
Director - Human Resources and Development

Mr. Charles Theuma, B.A. (Hons.) Bs. Mgt., BSc MCL, B.Com.
Consultant/Director - IT & Communications

Secretary

Ms. Alexandra Magri B.Com. (Hons.) Banking & Finance

Listing Committee

Chairman

Mr. Paul Spiteri, FCIB, C Dip AF

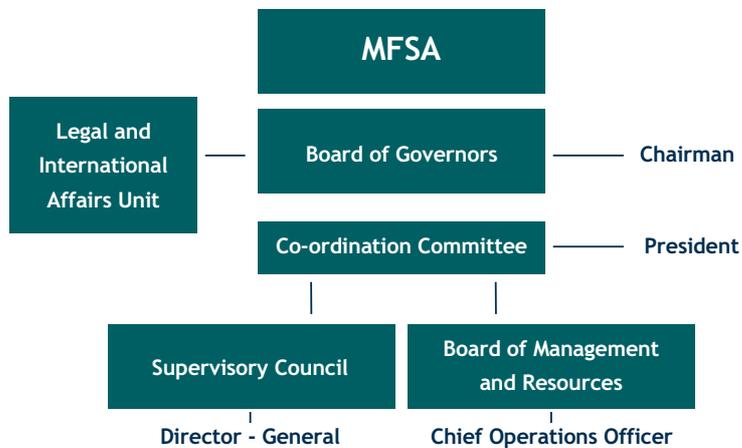
Mr. Edward Carbone, C.P.A.A., F.I.A.
Member and Secretary

Mr. David Pullicino, ACIB
Member

Mr. Robert Lafayette, Ph.D, MBA
Member

Mr. Albert Attard
Member

Organisation Chart





Regulation and Supervision

Regulation and Supervision

Whereas previous years have been characterised by a number of regulatory assessment and benchmarking programmes carried out by the Authority itself and by international organisations including the International Monetary Fund, the Financial Action Task Force and the EU Peer Review Team, the major regulatory development in 2004 concerned the adoption and implementation of EU Single Passporting Regulations.

The Supervisory Council is responsible for licensing and supervision in all areas of financial services, including banking and financial institutions, insurance business, investment services and securities business, stock exchanges and listed company compliance.

CREDIT AND FINANCIAL INSTITUTIONS

The Banking Unit comprises three mutually dependent sections that reflect the MFSA's obligations as the appointed regulator of licence holders in terms of the Banking Act and the Financial Institutions Act.

The Banking Regulation and Compliance Section is responsible for policy issues and all the background work that is necessary in relation to the periodic updating of legislation, related directives and policy documents. The Section also handles new licence applications and general licensing and compliance matters.

The Off-Site Supervision and Methodology Section is responsible for the analysis of monthly and quarterly statutory financial information submitted by licence holders

and compiles periodic risk rating reports on the key players within the banking industry. The On-Site Supervision Section carries out supervisory review visits at the premises of licensed institutions in accordance with an annual programme for each licence category falling within the competence of the Unit.

Licensing

Credit Institutions

As at year end there were 16 credit institutions and one representative office licensed under the Banking Act.

Financial Institutions

There were 13 institutions licensed under the Financial Institutions Act at year end. A licence to operate as a financial institution was issued in December to CommFinance Limited, a wholly-owned subsidiary of Commonwealth Bank of Australia. This institution is authorised to do business with non-residents of Malta, providing lending and financial leasing, guarantees and commitments, trading in money market instruments, foreign exchange, financial futures and options and exchange and interest rate instruments.

Extensions to licences were given to the following financial institutions to cover new business activities: Eurochange Financial Services Malta Limited, Fexco Financial Services (Malta) Limited and Travelex Financial Services Malta Limited.

European Passporting Rights

Following the enactment of the European Passport Rights for Credit Institutions Regulations in May, 44 EU licensed credit institutions informed the Authority of their intention to exercise their freedom to provide services in Malta as shown in table 1 overleaf.

Table 1:

Country	Number of Notifications
Austria	9
Denmark	1
Gibraltar	1
France	3
Germany	8
Hungary	1
Ireland	4
Luxembourg	1
Netherlands	1
United Kingdom	15

Supervision

On-Site Supervision

The Banking Unit follows a risk-based approach. Inspections are carried out on a cyclical basis to assess areas of concern according to their potential impact on the local financial system. 14 inspection reports covering different licensed entities were issued during the year. On-site supervision reports are normally forwarded to the relative institution for the required action.

Management letters by the external auditors of all licensed institutions continued to be analysed during the year. Such analysis was used to provide further insight into possible areas of concern which may require closer scrutiny by the on-site officials in due course.

Off-Site Supervision

Work in this area included the drawing up of a new Banking Directive on the submission of statutory financial information, which is expected to be published in the first quarter of 2005. This Directive (BD/06) has been completely restructured to meet the reporting requirements of the

European Central Bank and a set of guidelines for each statutory schedule within the Directive is being compiled together with the Central Bank of Malta (CBM). The revised Directive and the guidelines are expected to be officially issued and launched on the MFSA website during the first quarter of 2005.

INSURANCE BUSINESS

The profile of the local insurance market has been gradually changing over the past few years. Foreign insurance companies operating locally have over the years gradually decreased as the number of domestic insurance companies increased. This trend continued in 2004 as a number of foreign insurance principals transferred their Malta business portfolio to newly established local insurance companies. Following Malta's accession to the EU on May 1, the Authority has seen increased interest in the setting up of new insurance companies, in particular in the area of affiliated insurance business.

The legal framework continued to undergo changes to keep abreast of developments in the local and international business environment, in particular developments under the EU's Financial Services Action Plan (FSAP). These changes affected the Insurance Business Act, the Insurance Brokers and Other Intermediaries Act and related subsidiary legislation.

Licensing

Insurance Companies

Similar to what was experienced in 2003, the year under review was characterised by an increase in the number of local insurance companies. Atlas Insurance Agency Limited, an authorised agent for AXA Insurance p.l.c., converted its business operations to that of an insurance company, Atlas Insurance Limited. AXA Insurance p.l.c. ceased to operate in Malta and its Malta general business portfolio was transferred to the new domestic insurance company.

Elmo Insurance Agency Limited, local insurance agents for Royal & Sun Alliance Insurance p.l.c., converted its agency operations to those of an insurance company, Elmo Insurance Limited, and took over the Malta general business portfolio of Royal & Sun Alliance Insurance p.l.c.

Ace Insurance SA-N.V (Ace) has also requested the MFSA's authorisation to cease to carry on business of insurance in Malta. With effect from January 1, 2005, the general business portfolio of Ace in Malta will be transferred to Ace European Group Limited, a UK based company which will continue to carry on business in Malta on a freedom of services basis through Ace's previous agent, England Insurance Agency Limited.

Malta Export Credit Insurance Company Limited (MECI), a company that used to provide export credit insurance, was authorised to cease carrying out the business of insurance with effect from June 30, 2004. MECI appointed International Insurance Management Services Limited, a local insurance management company, to run off its business.

Ecclesiastical Insurance Office p.l.c. ceased to carry on marine cargo insurance business in Malta on June 1, 2004.

As at year end, there were eight local insurance companies authorised to carry on business of insurance in Malta, after two new companies had been authorised to commence business and two companies had ceased operations in the course of the year. The number of foreign companies authorised to carry on insurance business in Malta decreased to 12 after two foreign insurers transferred their Malta business to the two newly established domestic insurance companies.

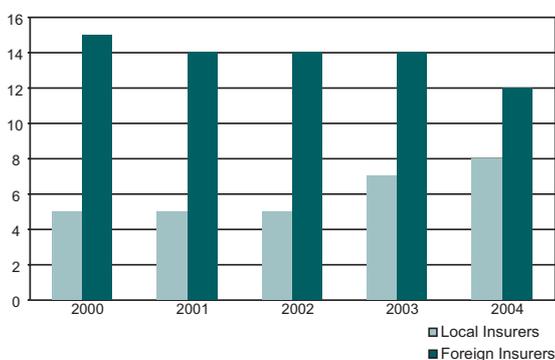


Figure 1 -Local and foreign companies authorised to carry on general insurance in Malta.

The number of local insurance companies specialising in long term insurance has remained unchanged. The number of composite companies, that is, companies carrying on both general and long term insurance business, also remained unchanged.

European Passporting Rights - European Insurance Undertakings

As from May 1, European Insurance Undertakings became eligible to provide cross-border insurance services in Malta in terms of the Third Non-life Insurance Directive and the Third Life Insurance Directive. These undertakings may commence their activity in Malta after the supervisory authority in their home Member State notifies the MFSA of their intention to do so. By December 31, the MFSA had received notification from 102 such undertakings stating their intention to operate under the freedom of services. The details are given in Table 2 below. European Insurance Undertakings are required to comply with general good provisions when carrying on such activities in Malta.

Lloyd's of London has also informed its home supervisor of its intention to carry on business of insurance in Malta under the provisions of freedom of services and freedom of

establishment. Lloyd's will be carrying on business in Malta in exercise of the freedom of services through its present local cover-holders or directly with enrolled insurance broking firms. Lloyd's Malta Limited, the general representative for Lloyd's, is deemed to be the Malta branch of Lloyd's and will be responsible for all business carried on by Lloyd's in Malta.

Country	Number of Notifications	Country	Number of Notifications
Austria	5	Italy	10
Belgium	3	Latvia	1
Denmark	1	Liechtenstein	1
Czech Republic	2	Luxembourg	4
Finland	2	Netherlands	6
France	6	Spain	1
Germany	10	Sweden	3
Hungary	2	Slovenia	1
Ireland	9	United Kingdom	35

Table 2 - Number of European Insurers who have exercised their right to provide insurance services in Malta as at 31st December 2004

Foreign Insurance Companies (in provisional liquidation)

Two foreign insurance companies, which carried on general business in Malta, Black Sea and Baltic General Insurance Company Limited (Black Sea) and Independent Insurance Company Limited (Independent) had, in 1998 and 2001, respectively, ceased to carry on business on the basis that the companies were insolvent. The UK Courts of Justice had in the two cases appointed PricewaterhouseCoopers London, UK as provisional liquidators.

Micallef Insurance Agency Limited and Cordina Insurance Agency Limited, former insurance agents of the insurers concerned, were appointed to run off the Malta business of Independent and Black Sea, respectively. These agents are currently determining all liabilities which these two insurance companies have incurred in Malta. Once these liabilities are determined, funds held in Malta will be distributed among all the bona fide creditors to the companies.

Insurance Agents

During 2004, Atlas Insurance Agency Limited and Elmo Insurance Agency Limited changed their agency operations to those of an insurer; however the shareholders of the respective two companies decided to establish a new insurance agency. Consequently, Atlas Healthcare Insurance Agency Limited was granted authorisation to act as insurance agent on behalf of AXA PPP Healthcare Limited, whilst, Elmo Insurance Agency Limited was granted authorisation to act as insurance agent for Exeter Friendly Society Limited, in the general insurance business class 2 - sickness. During 2004, Rausi Insurance Agency Limited was appointed agent for Atlas Insurance Company Limited in various classes of general insurance business.

On July 1, 2004 Micallef Insurance Agency Limited ceased to carry on insurance agency activities. This agency is therefore no longer authorised to act as agent for Citadel Insurance p.l.c. and the insurance principal has taken over the handling of claims and the administration of the business written on its behalf by Micallef Insurance Agency Limited.

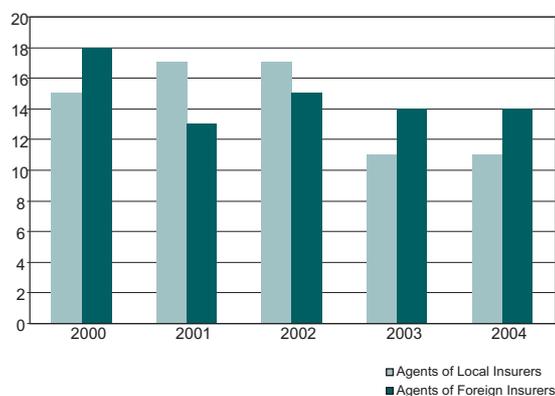


Figure 2: Insurance agents authorised to act on behalf of local and foreign insurance companies

Mutual Associations

The number of Mutual Associations which have been granted a permit to carry on business of insurance as a Mutual Association in terms of the Insurance Business Act remained unchanged at four during the year under review.

Insurance Managers

There are two authorised insurance management companies. No new insurance management companies were authorised by the MFSA during the year.

Insurance Brokers

The number of companies operating as brokers at the end of the year stood at 24 and no new licences were issued during the year.

Two individuals were registered in the Brokers Register while four individuals had their names removed. Three of these individuals voluntarily requested that their name be struck off the Brokers Register, whilst the fourth individual had his name struck off as a result of regulatory sanctions. Consequently, the number of individuals on the Brokers' Register at the end of the year stood at 39, compared to 41 at the end of 2003.

During the year under review two insurance broking companies, Island Insurance Brokers Limited and Aon Malta Limited, registered underwriting agreements in classes of general business with the Authority. Island Insurance Brokers Limited entered into underwriting agreements with Middlesea Insurance p.l.c., Atlas Insurance Limited and GasanMamo Insurance Limited whilst Aon Malta Limited entered into an underwriting agreement with certain Underwriters at Lloyd's.

Insurance Sub-agents

The number of insurance sub-agents enrolled in the Sub-Agents List at the end of 2004 stood at 564, compared to 599 at the end of 2003.

During the year the MFSA struck off the name of an insurance sub-agent from the List. This decision stemmed from the findings obtained during on-site inspections where it resulted that this licence holder was in breach of the Insurance Broker and Other Intermediaries Act. The details of the striking off of this Sub-Agent have been published.

Table 3 : Authorised Insurance Companies

	31 Dec 2002	31 Dec 2003	31 Dec 2004
Local Insurers	5	7	8
Foreign Insurers	14	14	12
Recognised Insurance Body	1	1	1
Insurance Managers	1	2	2
Agents of: Local Insurers	17	11*	11
Foreign Insurers	15	14	14
Insurance Brokers - Companies	24	24	24
Insurance Brokers - Individuals	43	41	39
Insurance Salesmen/Sub-Agents	571	559	564

**The sharp drop in the number of agents of local insurers emanates from the fact that three insurance agents have finalized the run-off of the insurance business accepted on behalf of their local principal.*

The chart below shows the gross premium income written in Malta for the period 1999 to 2003. The gross premium income continued to increase gradually over the previous years. Gross general business premium income increased by 6 per cent whilst gross long term business premium income increased by 22 per cent.

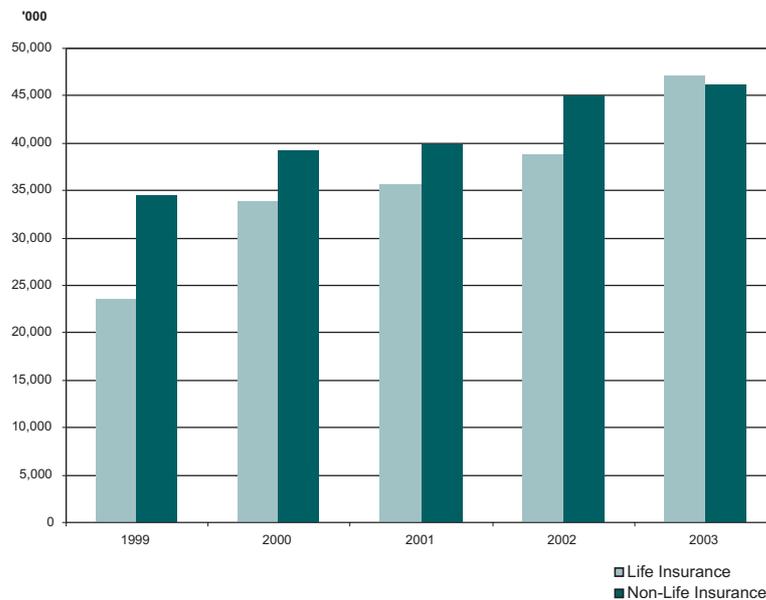


Figure 3: Gross Premium Income

New Licences issued during 2004

Insurance Companies

- Atlas Insurance Limited
- Elmo Insurance Limited

Insurance Agents

- Atlas Healthcare Insurance Agency Limited was granted authorisation to act as insurance agent on behalf of AXA PPP Healthcare Limited
- Elmo Insurance Agency Limited was granted authorisation to act as insurance agent of Exeter Friendly Society Limited in the general insurance business class 2 - sickness
- Rausi Insurance Agency Limited was appointed agent for Atlas Insurance Company Limited in various classes of general insurance business

Insurance Brokers

(Companies which registered an underwriting agreement)

- Island Insurance Brokers Limited
- Aon Malta Limited

Insurance Brokers (Individuals)

- Two individuals were registered in the Brokers register during 2004

Supervision

On-Site supervision

During the year the Insurance Business Unit conducted a total of 15 on-site compliance visits of insurance principals, agents, brokers and sub-agents. These on-site inspections consisted of a number of follow-up inspections, new inspections for insurance sub-agents, as well as inspections carried out to assess particular concerns identified through the off-site monitoring of licence holders.

On-site compliance visits are followed by a detailed report outlining the findings and conclusions of the compliance team. These reports are in turn followed up by a meeting with the senior management of the companies involved and a written communication to the company concerned which summarises the findings and states the remedial action required. Where on-site inspections revealed serious concerns, the Authority convened meetings with the directors and/or senior management of the companies concerned, during which the findings were communicated and the actions required to remedy the serious concerns were discussed.

Off-site supervision

Detailed off-site monitoring of the audited financial statements and the insurance business statements of insurance companies, insurance agents and brokers was carried out throughout the year. This monitoring is intended to determine the financial situation of licence holders taking into consideration the various legal requirements. An analysis of these statements was conducted and internal reports drawn up. Where shortfalls or non-adherence to the financial requirements were identified remedial action was requested. During the year, the Unit also reviewed monthly or quarterly reports submitted by licence holders. In the case of insurance principals, off-site quarterly computation monitoring of solvency and details of the assets covering the technical liabilities was also carried out.

Off-site monitoring also involves a review of the reinsurance arrangements of the licence holder to ensure that the insurer's reinsurance programme provides appropriate coverage to the level of the own funds of the company and the profile of the risks the company underwrites and the adequacy of the security subscribing to the reinsurance programme. It also involves off-site monitoring of non-financial requirements such as Professional Indemnity Insurance and Binding Authority Agreements in order to establish that such documentation is in line with legal requirements.

INVESTMENT SERVICES

The Investment Services Unit is responsible for the issue of two types of licences - Investment Services (IS) Licences and Collective Investment Scheme (CISs) Licences. CISs are in turn subdivided into retail schemes and professional investor funds.

The Unit also deals with notifications from foreign investment firms and UCITS intending to utilise passporting rights, as well as applications for the recognition of fund administrators and private collective investment schemes.

Licensing

Investment Services Licences

The number of new Investment Services licence applications received during the year was eight. The Authority issued five IS licences and accepted the voluntary surrender of eight - two of which had already been put in suspension during 2003.

The Authority also upgraded the licences of a Category 1a and a Category 1b licence holder to Category 2, meaning that services provided by these licence holders could be extended to include any Investment Service and to hold or control clients' money or customers' assets. The licences of five Category 2 IS licence holders were revised to include additional instruments and the licence of another Category 2 IS licence holder was amended to remove stockbroking services. During the reporting period two applications, one for a Category 4 IS licence that authorised the holder to act as trustee or custodian of collective investment schemes, and another for a Category 1a IS licence that authorised the holder to provide any investment service but not to hold or control clients' money or customers' assets, deal for their own account or underwrite; were withdrawn by

the holder. The licence held by First International Merchant Bank p.l.c. to provide any investment service, and to hold or control clients' money or customers' assets, was put in voluntary suspension as from September 15, 2004.

Collective Investment Scheme Licenses

During the year, the Authority issued 44 CIS licences (including sub-funds), eight of which were for Professional Investor Funds. The full list of licences issued is included below. The number of applications for new CIS licences received by the Authority during the year was 40.

The Authority also accepted the surrender of 280 CIS licences (including sub-funds) most of which are now being marketed in Malta under the UCITS Directive.

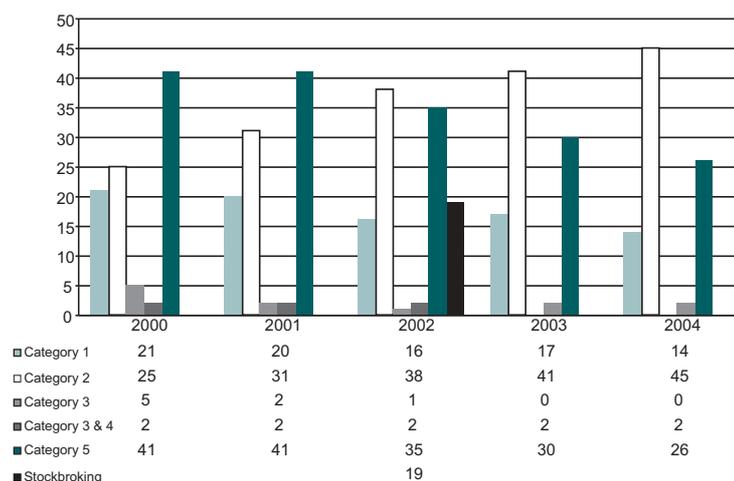


Figure 4: illustrates a comparative table showing the number and type of Investment Services Licences in issue. The temporary IS licences issued to stockbrokers mentioned in the chart as "Stockbroking", are now being provided through companies licensed as Category 2 investment services licence holders, and authorised to provide stockbroking services.

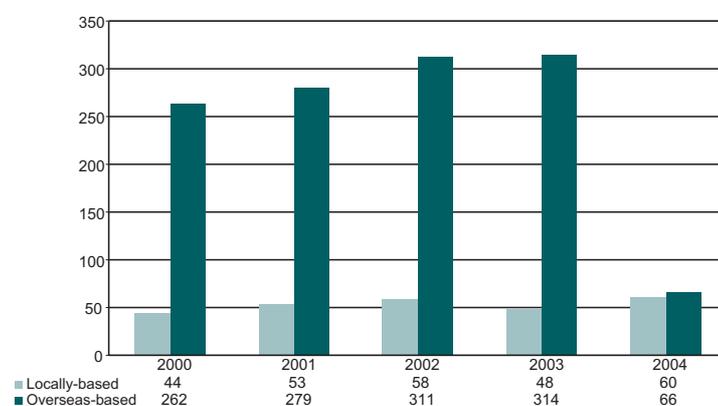


Figure 5: illustrates a 5-year comparative table of overseas and locally based CISs

New Licences Issued during 2004

Collective Investment Schemes

Retail Schemes - Local

- HSBC Structured Funds Sicav in respect of 3 sub-funds
- Vilhena Funds Sicav in respect of 3 sub-funds
- The Timeless Precious Metal Fund Sicav p.l.c.

Retail Schemes - Foreign

- Fidelity Funds SICAV in respect of 3 sub-funds
- HSBC International Capital Secured Growth Funds p.l.c. in respect of 10 sub-funds
- Invesco GT in respect of 1 sub-fund
- Invesco GT World Series Bond in respect of 4 sub-funds
- Invesco GT Maximum Income Fund
- UBS (Lux) Medium Term Bond Fund in respect of 5 sub-funds
- UBS (Lux) Bond SICAV in respect of 5 sub-funds

Professional Investor Funds

- Prime Emerging Funds Sicav
- Prime Sicav p.l.c. in respect of 1 scheme and 1 sub-fund
- Somerset Funds Sicav p.l.c. in respect of 4 sub-funds
- UK Financial Services Products Fund Sicav p.l.c.
- Vlatva Fund Sicav p.l.c.

Investment Services

Category 1

- Hollingsworth International Financial Services Limited

Category 2

- Prime Asset Management (Malta) Limited
- Cultor Asset Management International Limited
- Finacom Investment House Limited
- Teragon Capital Limited
- Somerset Management Malta Limited

Change in Category of Licence Category 1 to Category 2

- Benchmark Advisory Limited
- Island Financial Services Limited

Recognition Certificate

A recognition certificate issued to Modern Malta Investments Sicav Limited, as a recognised private scheme in terms of the Investment Services Act.

European Passporting Rights - Investment Services Directive

Following accession to the European Union in May 2004, the Primary Regulators of 81 foreign ISD firms (refer to table 4 below), submitted a notification that the respective firms intended to provide investment services in Malta on a cross-border basis in terms of the Investment Services Directive.

Table 4:

Country	Number of Notifications
Austria	6
Germany	1
France	1
Ireland	1
Luxembourg	1
Netherlands	2
Slovenia	1
United Kingdom	68

The MFSA also received notifications from the primary regulators of 47 foreign credit institutions (refer to table 5 below) intending to provide banking and investment services in Malta on a cross-border basis in terms of the Banking Co-ordination Directive and the Investment Services Directive.

Table 5:

Country	Number of Notifications
Austria	9
France	2
Gibraltar	1
Germany	8
Hungary	1
Italy	1
Ireland	5
Luxembourg	1
Netherlands	2
United Kingdom	17

European Passporting Rights - UCITS Directive

On accession to the European Union, the MFSA informed licensed foreign collective investment schemes which also qualify as UCITS of the applicability of the EU UCITS Directive passporting provisions and of the procedures to be followed in this regard. Out of the 66 foreign based collective investment schemes (including sub-funds) as at December 31, 2004, 31 qualified as UCITS and had still not surrendered their licence as at the end of the year.

Notification in terms of the UCITS Directive for marketing of an overseas-based UCITS scheme in Malta was received by 20 Collective Investment Schemes (refer to table 6 below).

Table 6:

Country	Number of Notifications
Austria	1
Ireland	6
Luxembourg	13

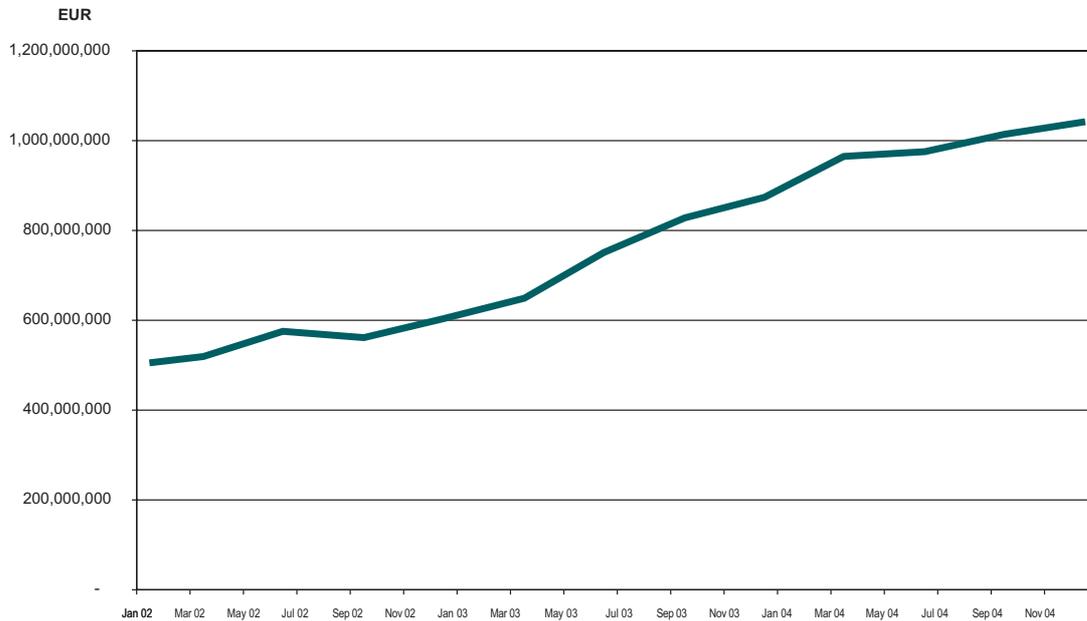


Figure 6: Net Asset Value - Locally Based CISs
figure excludes amount of foreign-based funds managed from Malta

Supervision

One of the main objectives of the Investment Services Unit is that of monitoring every licence holder in the best possible manner and overseeing that the licence holder abides by all applicable rules and regulations. This is implemented through both off-site and on-site compliance work.

Off-site Supervision

The Unit’s compliance staff monitored adherence by licence holders to their prudential requirements through the review of Annual and Interim Financial Returns and review of licence holders’ audited financial statements. The revised financial resources and reporting requirements, in line with the Capital Adequacy Directive were implemented during the period under review. In addition, the Unit was also involved in the review of a number of annual and half-yearly reports of licensed Collective Investment Schemes.

On-site Supervision

Regular on-site inspections are held to monitor the extent to which the operational activity of licence holders adheres to legal obligations and licence conditions. 61 such visits were carried out during the reporting period. The outcome was communicated to licence holders and, where necessary, remedial action was required within specified time-frames.

As part of the ongoing compliance duties, various advertisements and promotional spots and commentaries on both TV and radio were also monitored. From time to time circular letters advising Licence Holders to exercise more care in appropriate cases were issued.

REGULATORY ACTION

Through the Supervisory Council, the Authority took regulatory action against a number of licence holders for failure to comply with legal obligations or licence conditions. In determining the appropriate action the Authority takes into consideration the seriousness of the breach and the openness of the licence holder in reporting the breach.

A number of administrative penalties were levied on investment services and insurance licence holders. Penalties imposed on investment services licence holders were mainly due to breaches of investment services licence conditions, late submission of documents, issuance of irregular advertisements and deficits incurred in financial resources.

In the insurance sector administrative penalties were imposed, inter alia, for failure of companies to submit their audited financial statements and/or management accounts on time and failure of companies to establish and maintain one or more business of insurance accounts.

An administrative penalty which was contested in late 2003 by a licence holder who lodged an appeal to the Financial Services Tribunal, was decided in favour of the MFSA early in 2004.

PREVENTION OF MONEY LAUNDERING

The Money Laundering Reporting Officer within the Company Compliance Unit, represents the Authority at the meetings of the Prevention of Money Laundering Joint Committee. The Authority is also represented on the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures which meets in Strasbourg and one of its Directors is a member of the governing board of the Financial Intelligence Analysis Unit (FIAU).

The MFSA was informed about 33 suspicious transaction reports by licensed financial services companies which were reported to the FIAU in the course of the year.

Following discussions between representatives of the MFSA and the Financial Intelligence and Analysis Unit (FIAU) during the period under review, the results of checks undertaken by the regulatory units in respect of anti-money laundering procedures adopted by licence holders are now being reported to the FIAU.

LISTING AUTHORITY

The Listing Committee evaluates applications for admissibility to listing of Securities and monitors compliance with Listing Rules. The Committee reports to the MFSA in its capacity of Listing Authority under the Financial Markets Act.

During the year the Listing Authority evaluated and recommended a number of applications for listing including a Lm10 million 3.8 per cent EIB Bond, various Malta Government securities, Malta Notes and 16 Collective Investment Schemes.

New Listing Rules became effective on January 1, 2004. A number of amendments to the Rules were approved and circulated to all interested parties in the course of the year. Of major interest were the introduction of 'Admissibility to Listing Fees' as an Appendix to Chapter 1 and the new Listing Rules governing the 'Transactions involving Substantial Shareholdings'.

Additional check lists that cater for the various securities seeking admissibility to listing are being drawn up.

REGISTRATION OF COMPANIES

2004 saw a marked increase in the registration of new companies and in the volume of work at the Registry of Companies. The total number of new commercial partnerships registered during the year was 2,479 (vide Table 7 opposite). New companies registered during the year represented an 11 per cent increase on the previous year (2003) and a 31 per cent increase on 2002 registrations. The total number of companies registered in Malta since 1965 up to December 31, 2004 totals 35,950. The number of companies involved in mergers during 2004 was 74 while 22 companies were divided into other companies. During the year, 664 companies were placed into dissolution and 148 companies were struck off the Register.

Table 7: New Company Registration

	Companies	Partnerships	Total
New Registrations:			
Qtr 1 2004	687	11	698
Qtr 2 2004	597	3	600
Qtr 3 2004	465	5	470
Qtr 4 2004	702	9	711
Total	2,451	28	2,479

During the year, 290 companies formerly incorporated and registered outside Malta transferred their domicile to Malta in terms of the Continuation of Companies Regulations. Companies registered in approved countries may re-domicile to Malta, subject to the approval of the authorities in their country of origin.

Online Services

The Registry of Companies website hosts the electronic company database and provides easy access to company data by the public. All registered documents, including annual financial statements, may be accessed online. A new Online Registry System was launched on December 1, following rigorous testing carried out by Registry and IT staff. The new, web-based system integrates front end (including online) services with the Registry's back office processes. It has also introduced online payment facilities for customers and is designed to allow the electronic filing of company documentation once electronic signatures are introduced.

COMPANY COMPLIANCE

The MFSA supports initiatives directed at the adoption and adherence to good corporate governance standards and is itself preparing to launch a Code of Corporate Governance for listed companies and companies having a public sector interest in 2005.

The MFSA's Company Compliance Unit is responsible for matters related to compliance by all registered companies and their officials with the requirements of the Companies Act.

The Unit also supervises companies and individuals who are licensed by the Authority to provide nominee services. These include 38 companies holding a warrant to act as

nominees and trustees under the MFSA Act and 80 licensed nominees. In addition to the routine due diligence checks on company officials and shareholders, thirty-five onsite compliance visits were made to the offices of licensed nominee companies.

As a consequence of the coming into force of the Trusts and Trustees Act 2004, the MFSA will not be issuing any new licences authorising the provision of nominee services, while companies and individuals currently licensed to provide such services have two years within which to obtain a licence to act as Trustees under the new law in default of which their business has to be transferred to a licensed Trustee.

Trusts

Following the registration of 27 new trusts and the termination of 20 others during the year, the MFSA had 193 trusts on its register. On January 1, 2005, the registration of new trusts will be discontinued in terms of the new Trust and Trustees Act which focuses on the supervision of trustees rather than the trusts. A Code of Conduct for Trustees has also been launched by the MFSA.

Winding up of offshore sector

All existing offshore companies had up to September 2004 to either convert to onshore status or else be placed in dissolution. During the year, the last remaining 104 companies ceased operating as offshore companies. 72 of these companies converted to onshore, while the remaining 32 offshore companies were placed into dissolution.

Procedure for defunct companies

During the year the Company Compliance Unit reviewed over 200 company files to assess whether these companies should be declared as defunct by the Registrar of Companies in terms of Article 325 of the Companies Act. 204 companies were struck off the Register during the year.



Operations Review

Operations Review

BUSINESS DEVELOPMENT

Business trends in the financial services sector were significantly affected by EU Membership. As Malta's competitiveness in financial services became increasingly evident in the run up to EU accession activity in new areas of business increased significantly. Access to the single market was a determining factor in decisions taken by a number of foreign companies to apply for MFSA licences to set up professional investor funds, affiliated insurance companies and related administration and management operations. Existing operators also reported a marked increase in third party fund administration business, custody services and insurance service business originating from overseas. It has also been noted that international media interest in Malta as a financial services jurisdiction also picked up during the year, especially among publications that have an industry focus.

Meanwhile, the Authority has been working closely with private sector representative bodies on the implementation of an action programme within the framework of the "Agenda for Maltese Financial Services in Europe", a strategic plan launched in January, 2004 to deal with the anticipated changes in the business scenario post-EU accession.

These initiatives are designed to ensure that identified opportunity areas are matched by a regulatory and business environment that is well prepared in this respect. The action programme focuses on the credibility of the Malta brand, the level of preparation of the human resource in the industry, and improvements required in the legal and regulatory framework to cater for new areas of business. Attention is also given to the needs of small firms in this context. The implementation is monitored by a committee

made up of industry representatives, members of the MFSA Business Development Unit and external advisors with international experience in product development, communications and European Union affairs. The initiatives taken during the year are summarised in the box opposite.

The MFSA's Business Development Unit acts as an interface between the Authority and the industry, the media and the general public. The Unit handles enquiry services, media relations, communications, research and development and consumer services. Throughout the year the Unit regularly gave briefings and presentations on Malta's regulatory and business environment for financial services to diplomatic and consular representatives, foreign business delegations, journalists and other interested groups. The Unit's events team was also involved in a number of conferences and seminars organised by the MFSA and provided logistical back-up for events held by industry associations at the Authority's conference facility.

During the year under review the Authority continued with its efforts to build up information resources for easy access by professionals, financial companies and the specialised media. The Unit's research section provides information resources and prepares statistical data for internal and external users and also monitors the competitiveness of Malta vis-a-vis other jurisdictions on an ongoing basis and communicates the relevant information as necessary. This section also worked on the updating of Information Guides published by the Authority and on the development of new brochures on occupational pension schemes, trusts, affiliated insurance and professional investor funds.

Throughout the year the Unit also had to deal with a substantial increase in the volume of enquiries ranging from requests for general information to more specific questions by financial services companies interested in establishing or doing business in Malta.

Joint public/private sector initiatives under the “Agenda for Maltese financial services in Europe” undertaken in 2004

Brand Development

- *Finance Malta Brand* - development of a brand strategy, development of communications tools for use by industry associations, product information Guides, launch of networking support scheme for industry associations
- *Use of Information and Communications Technology (ICT)* in the delivery of financial services. Support of industry seminars and University initiatives.
- *Media Initiatives* such as training for journalists, articles in international publications, stepped up media communications around EU accession date
- *Dissemination of Information* - launch of International Legislative Update newsletter and an industry specific EU Bulletin, set up of MFSA information office

Industry Training

- *Design and implementation of training programmes* including trustee training; actuarial training, training for accounting technicians, training for regulators
- *Regulatory compliance workshops*
- *Information seminars* on EU passporting, Basle II, regulatory developments in banking and insurance, new IAS standards, captive insurance

Regulatory Development

- New Trust and Trustees Act
- New Listing Rules
- Cell Companies Regulations
- Publication of Directives for Occupational Pension Schemes
- EU Passport Rights Regulations & General Good Principles
- Participation in CESR, CEBS, CEIOPS, IAIS and IOSCO

Attention to SMEs

- *EU projects* (proposals submitted under EU/EEA programmes in areas such as use of ICT, training and networking)
- *Industry training initiatives*
- *Reduction of bureaucracy and costs* liaison with public authorities, removal of trading licence fees for MFSA licensed entities, information guides and research support to firms and industry associations.



MFSA 10th Anniversary Conference held on September 12, 2004 panel of speakers including from right: Mr Wim Woeliker, CESR, The Hon. Prime Minister Dr. Lawrence Gonzi, Prof. Joe Bannister MFSA Chairman, The Hon. Mr John Dalli, Conference Chairman and Mr Pierre Delsaux, DG Internal Market. Mr Piero Ugolini from the IMF and Mr Michael Bonello Governor of the Central Bank of Malta also addressed the conference.

Events

"Onshore Europe" 10th Anniversary Conference

The highlight event organized by the Authority during the year was a conference called "Onshore Europe" held to mark Malta's successful ten year programme of building an onshore jurisdiction in the EU mainstream. The aim of the conference was to take stock of Malta's development as a mainstream financial centre during a very challenging period for financial services both locally and on the international stage. The Conference was addressed by MFSA Chairman - Prof. J. V. Bannister, Central Bank Governor - Michael C. Bonello, and high ranking officials from the European Commission, the Committee for European Securities Regulators (CESR), the International Monetary Fund (IMF) and the Central Bank of Malta.

"Basel II for SMEs"

In October, the MFSA joined UEAPME, the European Savings Bank Group, Bank of Valletta and the General Retailers and Traders Union in a conference for small enterprises. The aim of the conference was to ensure that owners of small and medium sized businesses are aware of the finance mechanisms that will be applied in the future through the revised international capital adequacy requirements for banks and other credit institutions which will be introduced in all EU member states.

"Transition to Euro"

During the same month the MFSA also addressed an international conference on the Transition to ERM II, EMU Convergence & EURO Adoption: Implications for Enterprises which was held on October 15, 2004. The conference was jointly organized by the Mediterranean Bank Network and the Malta Business Bureau.

Other events in which the MFSA participated during the year included the 5th Insurance Tax Conference organised in Malta by Oracle Business Conferences, a conference on the Implementation of EU Directives in the Maltese Courts, organised by the Chamber of Advocates and a Training Conference for Overseas Correspondent Banks organised by Fimbank.

On the international front the MFSA participated in Malta information meetings for financial firms and regulators in Amsterdam, organised by the Embassy of Malta to the Netherlands and Vienna, organised by the Vienna Stock Exchange and the Malta Stock Exchange.

International Media Coverage and Articles

News reports and features on Maltese financial services were carried, among others, in: Portfolio International, Accountancy Magazine, Le Figaro, La Moneda, Les Echos, Enterprises: Rhone-Alps, Lufthansa Magazine, Finance Dublin, FT.com, The Business, International Herald Tribune, Hedgeworld News, Lloyds List, Forbes Magazine, Captive Review, Online Hedge Fund Alert, CNBC Europe, Global Fund News, The Financial Regulator and Financial Regulatory Briefing Sheets. Articles on specific topics were also featured in industry publications such as International Investment, Hedge Funds Review and AIMA Journal.

Considering the media attention that was given to EU enlargement in the run-up to accession, the MFSA and a number of local companies had got together to produce a one-minute Finance Malta profile which was broadcast on BBC World television at various times of the day throughout accession week. This information slot profiled Malta as a finance centre and is estimated to have reached 75 million homes in Europe and North Africa.

Information Office

Towards the middle of the year, the MFSA set up an Information Office within the Business Development Unit to handle press enquiries and act as an information channel between the MFSA and the public. The Information Office will also be the reference point for enquiries about publications, seminars, press briefings and other MFSA activities. The setting up of a Press and Information Office to strengthen the lines of communication between the MFSA, the finance industry and the public was also one of the areas identified for improvement in the Agenda for Financial Services.

The Information Office also embarked on a complete review of the MFSA website in conjunction with the IT and Communications Unit. The Authority feels that the MFSA website has become a key communication tool for the organisation and the current exercise is intended to rationalise the structure of the site, facilitate access to information resources and improve the delivery of news about the MFSA and regulatory information.

HUMAN RESOURCES AND TRAINING DEVELOPMENT

The training of MFSA personnel and of people employed in the finance industry is critical to the quality of service and growth in the sector.

The MFSA has continued to play an active part in the ongoing effort to enhance the level of skills and expertise available within the sector and has actively collaborated with training institutions and industry bodies throughout the year to ensure that quality local training is available in all areas where it is needed.

The Human Resources Unit was heavily involved both in the recruitment, development and well-being of MFSA staff and in the stepping up of efforts to ensure that an adequate level of sector specific training is available for people employed in the finance industry.

The Unit continued to provide assistance as necessary towards awareness and career programmes in schools. Together with the Institute of Business and Commerce of the Malta Council for Arts Science and Technology (MCAST), the MFSA is also evaluating the feasibility of establishing re-training programmes for prospective job seekers who may be attracted to the financial services sector, and to introduce new courses targeted towards professional development.

MFSA Staff Development

Following the introduction of revised policies and procedures in relation to internal, local and external training for MFSA staff during 2003 and the subsequent implementation of a revised staff appraisal process, the Unit established a firm basis for the formulation of staff training programmes for 2005.

In the meantime, six members of staff benefited from the Self Development Study Scheme during 2004 raising the number of staff undertaking self development to 29. Concurrently, eight members of staff completed their studies successfully.

Together with the Administration Unit, steps were also taken to enhance the health and safety regime for MFSA staff. This included the co-ordination of training for employees interested in any eventual fire marshal and first aid duties. The Unit also played an active role in an extensive exercise, the purpose of which was to ensure that the MFSA operates in full compliance with the standards provided for by relevant health and safety legislation.

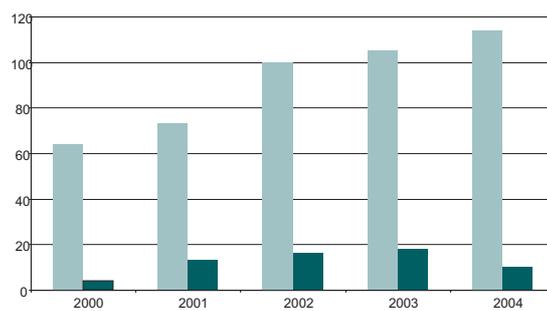


Figure 7: There are 124 People working at the MFSA

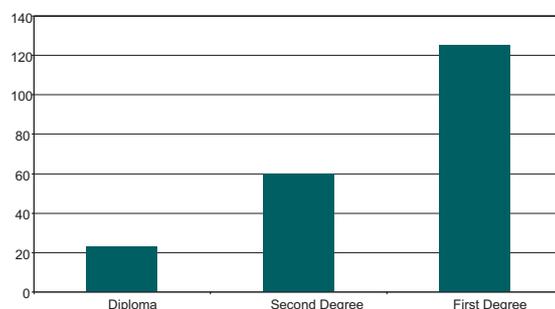


Figure 8: Number and type of qualifications held by MFSA employees

Industry Training

Ongoing co-operation with the major professional and teaching bodies throughout the year ensured a successful implementation of an extensive training programme. The very encouraging response to this programme augurs well for the industry training initiatives planned for 2005. The Human Resources Unit also ensures that its industry training objectives are closely aligned to the Agenda for Maltese Financial Services so that industry needs identified during the strategic consultation process are met.

The industry training programme covers continuous professional development in different areas of financial services, familiarization with aspects of EU and local financial services legislation, taxation issues, regulatory and supervisory standards and new financial services products. It is also intended to provide a forum for discussion between the MFSA and stakeholders particularly in connection with periodic developments in the regulation and supervision of the financial services industry.

Training highlights

The Institute of Financial Services (IFS Malta), the Malta International Training Centre (MITC), the Malta Bankers' Association (MBA) and the Institute of Financial Services Practitioners (IFSP) are actively contributing in this initiative.

In anticipation of the enactment of new Trusts legislation in the second half of the year, the IFSP, supported by the MFSA, organised two intensive courses on trusts and their administration. The course was run by professional lecturers from both the UK and Malta.

The MFSA and the insurance industry have also been aware of the implications resulting from the absence of the actuarial profession in Malta. To this end the Authority collaborated with MITC to establish locally-based training in actuarial techniques that would lead to the attainment of the Diploma in Actuarial Techniques issued by the UK Institute of Actuaries.

The MFSA and MBA organized a programme on the implications, obligations and expected developments of Banking Regulation in Malta. The aim of the programme, held over four weeks, was to discuss the issues affecting Banking Regulation in Malta while evaluating the impact on the banking industry of developments brought about by Malta's accession to the EU and the ongoing review of international standards.

Through the Human Resources Unit, the MFSA continued to assist in the formulation of training initiatives for journalists and media contributors in conjunction with the Malta Institute of Journalists and the Fondazzjoni Tumas Fenech Għall-Edukazzjoni fil-Ġurnalizmu.

In March, the MFSA also invited Mr. Steve Butterworth, formerly Commissioner of Insurance at the Guernsey Financial Services Commission, to deliver a series of presentations on the captive insurance industry for insurance intermediaries, insurance professionals and MFSA regulatory staff.

CONSUMER PROTECTION

The year under review is the second full year since the establishment of the Office of the Complaints Manager. The main task of this Office is to act as complaint facilitator to ensure that whoever approaches the MFSA with a query or complaint obtains a professional service aimed towards alleviating the inconvenience of problem situations or the breakdown of communication with service providers.

The Authority has noted that there has been a substantial increase in awareness of the mediation and conciliation services provided by the Complaints office. However the MFSA believes that certain sections of the general public need to become more aware of the MFSA's role in financial services. The MFSA hopes to see financial entities increase their efforts in disseminating information about the MFSA's Complaints Office.

This year the Consumer Complaints Manager also participated and chaired one of the workshops of the Financial Network (FIN-NET) which was launched in 2001 by the European Commission as an out-of-court complaints network for financial services.

Formal complaints reviewed

2004 resulted in a 90 per cent increase in the number of complaints handled over 2003. Although the number of complaints relating to investment services complainants has decreased, there has been a substantial rise in insurance and banking related complaints.

The Consumer Complaints Manager also took part in various other radio and TV programmes, and was also invited to deliver lectures during a series of investor education seminars organised by the Malta Stock Exchange and Bank of Valletta in a number of towns in Malta and Gozo.

The Consumer Complaints Office issued a number of media releases to warn the public about persons or entities which were soliciting financial services without a licence.

Table 8:

	2002*		2003		2004	
	Reviewed	Pending	Reviewed	Pending	Reviewed	Pending
Banking	7	0	22	5	39	4
Insurance	27	4	85	15	212	10
Investment Services	29	5	44	13	36	5
Total complaints	63	9	151	33	287	19

* Majority of complaints were received over the last six months of the year

Insurance-related complaints have increased by 150 per cent over 2003 - these included complaints on the increase in premia especially with regards to motorbike insurance, use of spare parts for repair works, the market value of motor vehicles and travel insurance.

In the investment services area, the Consumer Complaints Office was involved in lengthy investigations related to cases involving alleged mis-selling and bad advice. The majority of banking-related complaints investigated relate to bank charges.

Consumer awareness

Throughout the year, the MFSA kept up its responsibility to disseminate information of educational value to consumers of financial services. The Authority produced and coordinated a live radio programme on RTK about consumer aspects relating to banking, insurance and investment services. Subjects covered included consumer rights related to credit cards and cross-border payments. The feedback received was very positive and the MFSA aims to produce similar programmes in 2005.

LEGAL AND INTERNATIONAL RELATIONS

Following EU membership, the Legal and EU Affairs Unit was renamed the Legal and International Relations Unit in order to better describe the broader functions assigned to the Unit within the recently revised structures of the MFSA.

The Unit serves as a secretary to the Board of Governors and the Co-ordination Committee, as provided by the law constituting the Authority. The Unit is also responsible for the co-ordination of all legal and international matters within the MFSA. Officers of the Unit provide legal advice to the regulatory units and Boards of the Authority and are extensively involved in the drafting of primary and secondary legislation, the transposition of EU Directives related to financial services into the Maltese legal system, assisting in the passage of bills before parliament, preparation of written replies to Parliamentary Questions, the handling of Memoranda of Understanding with foreign regulatory authorities and other organisations, assisting in the prosecution of criminal cases of a financial nature before the Courts of Magistrates and representing and defending the Authority in cases before the Financial Services Tribunal.



MFSA Chairman Prof. J.V. Bannister and Mr. Karl-Burkhard Caspari, Deputy President of BaFin

During 2004, the Unit was heavily involved in drafting and reviewing a number of amendments to primary legislation relating to financial services as well as a long list of legal notices, primarily brought about by the necessity to bring the Maltese financial services regime in line with EU legislation.

As co-ordinator of matters relating to the European Union, the Unit was involved in providing regular updates on transposition of the EU Acquis as well as opinion papers on proposed EU legislation. In particular the Unit prepared several Memoranda on the content and impact of proposed EU Directives on the local financial services sector to assist the Ministry of Foreign Affairs. Other EU-related work included the drawing up of transposition tables, updating of monitoring tables, preparation of notes for Ecofin meetings, review of Commission documents and review of draft EU legislation for future adoption.

The Unit represents the MFSA on a WTO working group set up by the Ministry for Foreign Affairs during the year under review. The Unit reviewed the draft EU-Mexico Free Trade Agreement drawn up by the European Commission on behalf of accession countries and proposed a note containing the MFSA's comments on this offer. The Unit gave its opinion on several Free Trade agreements including that between the EU and Chile as well as the Draft Framework Protocol on liberalisation of trade in services.

The Unit also gave an opinion on several Investment Guarantee Agreements including those proposed between Malta and Kazakhstan, Morocco, Ecuador, and Uzbekistan. An opinion paper was also prepared, on the Working Document provided on "Possible elements for an Action Plan EU -TUNISIA."

Memoranda of Understanding

The Unit assisted the Authority in the exchange of information and collaboration with foreign authorities on a regular basis in furtherance of requests for assistance in matters of regulatory concern. Memoranda of Understanding delineating the parameters within which information is to be exchanged and co-operation is to be exercised were negotiated and concluded with several foreign authorities, including the Financial Services Authority of the United Kingdom, the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), the Guernsey Financial Services Commission, the Financial Services Commission of Mauritius, the National Bank of Slovakia, the Comissão do Mercado de Valores Mobiliários of Portugal, the Gibraltar Financial Services Commission, the Isle of Man Financial Supervision Authority and the Banking Regulation and Supervision Agency of Turkey.

International Sanctions

The Unit represents the MFSA on the Sanctions Monitoring Board, a Board established by law to monitor the operation of regulations imposing sanctions and other similar measures. Lists of persons and entities against whom sanctions are imposed in adherence to U.N. Security Council Resolutions and E.U. Regulations continue to be made available on the MFSA website for access by licence holders and nominee companies. Licence holders have been reminded by means of an MFSA Circular of their duty to keep themselves up to date as to regulations issued under the National Interest (Enabling Powers) Act and EU legislation which is directly applicable. The Unit has also proposed amendments to the National Interest (Enabling Powers) Act, which are currently being discussed by the said Board.

WORKING COMMITTEES AND INTERNATIONAL FORA

Malta as an EU Member State participates in a number of Committee meetings and Working Groups. During the year, officials from the Banking, Insurance and Investment Services within the MFSA participated in a number of Committees and Working Groups. Banking officials were involved in the Committee of European Banking Supervisors (CEBS) Working Groups on Common Supervisory Disclosure Task Force and Common Reporting Framework for the Solvency Ratio. Insurance officials attended committee meetings of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) which performs the functions of Level 3 Committee for insurance and occupational pensions sectors. CEIOPS is composed of senior level representatives of the insurance and occupational pensions' supervisory authorities from the EU Member States. The MFSA is also a member of the International Association of Insurance Supervisors (IAIS) and have during the year participated actively in conferences and committees.

The Banking off-site section was also involved in the Financial Conglomerates working group in relation to the drafting of regulations regarding financial conglomerates.

The Technical Committee on Financial Statistics is formed from representatives of the MFSA's Banking Unit, the CBM (Financial Stability Office and Economics Division, and Balance of Payments Section), licensed entities such as banks and financial institutions and the Malta Bankers' Association. Staff from the Banking Unit's Off-Site Section continued to participate at this forum whose aim is to harmonise and update the regulatory, statistical and economic data used by various reporting agents.

The Financial Collateral Working Group is formed from representatives of the MFSA's Legal and Banking Units and the CBM. Various meetings were held by the group in order

to draft an Act on the basis of the EU's Financial Collateral Directive which was brought into force on May 1, 2004.

MFSA officials also attended training events on various supervisory issues organised by the Financial Stability Institute (FSI) of the Bank for International Settlements (BIS), the Banque de France and Deutsche Bundesbank.

INFORMATION TECHNOLOGY

An organization such as the MFSA requires a robust information technology infrastructure which ensures continuous information and communication technology services available to the knowledge workers employed at the MFSA. A number of specialized websites are designed and developed, and regularly maintained to offer fresh and up to date information to the financial services practitioners world-wide, on a 24 hours per day, 365 days per year basis.

The way forward for the MFSA IT division is to continue consolidating what has been developed during the past decade. This will include building new systems from the ideas gained from customers and employees to ascertain a continuous development of its business lines, reaching out to the whole globe.



Legislative Developments

Legislative Developments

BANKING

During the year the Banking Unit effected a number of minor changes to Banking Directives. Most of the changes were included to bring the respective directives in line with EU Directive 2000/12/EC.

The following subsidiary legislation were issued during the year:

- European Passport Rights for Credit Institutions Regulations, 2004
- Financial Conglomerates Regulations, 2004

By virtue of the Trusts Act 2004, minor amendments were also made to the Banking Act 1994 and the Financial Institutions Act 1994. These amendments provided the regulator with powers to issue directives for the supplementary regulation of credit and financial institutions when such institutions form part of a financial conglomerate.

INSURANCE

The process of transposing EU Insurance Directives into the Maltese insurance legislation continued during the year under review.

The following new insurance regulations were issued during the first six months of 2004:

- European Passport Rights for Insurance Undertakings Regulations, 2004
- Insurance Business (Reorganisation and Winding Up of Insurance Undertakings) Regulations, 2004
- Companies Act (Cell Companies Carrying on Business of Insurance) Regulations, 2004
- European Passport Rights for Insurance Undertakings (Amendment) Regulations, 2004

- Insurance Business (Insurers' Assets and Liabilities) Regulations, 2004
- Insurance Business (Supplementary Supervision of Insurance Undertakings in an Insurance Group) Regulations, 2004
- Insurance Business (Companies Accounts) (Amendment) Regulations, 2004
- Financial Conglomerates Regulations, 2004
- The Protection and Compensation Fund Regulations, 2003

During the last quarter of 2004, further amendments were introduced to the Insurance Business Act, 1998. These amendments came into force on December 1, 2004. The salient amendments include: the removal of the obligation for companies with head office in Malta to deposit and pledge for the account of the MFSA the Minimum Guarantee Fund; the change in the definition of the Malta Margin of Solvency; the exclusion of personal liability of the general representative for debts and obligations of the company; the introduction of a new requirement for a company to submit a financial recovery plan when there is a deterioration in the financial position of the company; the inclusion of an article enabling the Minister of Finance to issue regulations providing for the payment of fees by Protected Cell Companies and individual cells.

Insurance Directives being drafted

The following new Insurance Directives are currently being drafted:

- Insurance Directive 22 of 2005 - Exercise of Passport Rights by European Insurance Undertakings - Establishment
- Insurance Directive 23 of 2005 - Exercise of Passport Rights by European Insurance Undertakings - Services
- Insurance Directive 24 of 2005 - Exercise of Passport Rights by Maltese Insurance Undertakings - Establishment

- Insurance Directive 25 of 2005 - Exercise of Passport Rights by Maltese Insurance Undertakings - Services
- Insurance Directive 26 of 2005 - Export Credit Insurance

These directives amplify in more detail the provisions contained in the European Passport Rights for Insurance Undertakings Regulations, 2004.

The Unit is also in the process of effecting some amendments to two Insurance Directives, namely, Insurance Directive 1 of 1999 - Own Funds of Companies Carrying on Business of Insurance or Acting as Insurance Agents or Managers and Insurance Directive 6 of 1999 - Schemes of Operations Relating to Business of Insurance to be carried on in the Case of Insurers.

It is proposed that the new Directives and the aforementioned amendments will come into force in the first quarter of 2005.

EU Insurance Mediation Directive

In view of the EU Insurance Mediation Directive which Member States are required to implement in their national legislation by January 14, 2005, the MFSA is currently reviewing its insurance intermediary legislation. Whilst the Maltese insurance intermediaries' legislative framework of 1998, as subsequently amended, incorporates the salient provisions of the Directive, further fine tuning is required to fully align the Maltese with the EU Insurance Mediation Directive. In order to incorporate the freedom of establishment and the freedom to provide services secondary legislation incorporating these principles was necessary. To this effect the European Passport Rights for Insurance Intermediaries Regulations, 2005 have been drafted. The intention is to bring these regulations into force on the January 15, 2005.

INVESTMENT SERVICES

Amendments to the Investment Services Guidelines were effected during the year to reflect the following:

- the Authority's revised policy on Professional Indemnity Insurance;
- the new application and annual fees which came into force on January 1, 2004 (as detailed in Legal Notice 216 of 2003);
- the changes to the exchange control requirements which were brought about by the External Transactions Act;
- the EU's Investment Services Directive;
- the EU's Capital Adequacy Directive; and
- the EU's UCITS Directive.

The Investment Services Unit has also during the year commenced work on further revisions to the Investment Services Guidelines. The main areas include:

- Revision of section dealing with Advertisements such that this is clarified further.
- Provision for Multiple Agents - i.e. Licence Holders (other than Local Representatives) acting as agents for overseas collective investment schemes, LLTCIs or other products which are not licensed/licenceable in Malta.
- Introduction of the requirements which must be met by General Partners of Limited Partnerships formed to conduct investment services business in terms of Schedule 10 of the Companies Act.
- Introduction of penalties for infringements by locally based UCITS Schemes.
- Other general updates which were deemed necessary mainly following feedback received from Licence Holders.
- Revised Standard Licence Conditions for UCITS Schemes in line with the EU Commission's April 2004 recommendations relating to investments in derivatives and the simplified prospectus.

Guidelines for European Investment Firms

During 2004, the Investment Services Unit also issued a new document entitled 'Guidelines for European Investment Firms passporting into Malta under the provisions of Articles 17 and 18 of the Investment Services Directive 93/22/EEC'. The Guidelines detail the procedure to be adopted, as well as the applicable regulatory requirements to be complied with by EU/EEA investment firms wishing to provide services in Malta through a branch or on a cross-border basis.

New Legislative Developments concerning Limited Partnership Funds

During the period under review, following certain enquiries from the industry, the Unit was involved in carrying out research regarding the criteria ordinarily adopted by foreign jurisdictions in respect of general partners in a limited partnership collective investment scheme. The proposed amendments to the Tenth Schedule of the Companies Act, 1995 were enacted by Parliament in December as part of the Trusts Bill. These were approved such that the general partner in a limited partnership need not necessarily be a locally licensed manager. This amendment would address a scenario whereby an overseas licensed entity of sufficient standing and repute, may act as a general partner in a limited partnership. However, all general partners would need to satisfy the MFSA of their fit and proper status. In the light of this amendment, the Investment Services Guidelines will also require amendment to better reflect the new position and to prescribe additional conditions to which general partners must adhere.

EU Market Abuse Directive (MAD)

With the purpose of transposing the EU Market Abuse Directive and the Implementing Measures issued by the Commission, throughout the last half of this year, MFSA officials from the Investment Services Unit were involved in a number of meetings with members of the Legal Unit and with the MSE. In this regard, the drafting of the Prevention of Financial Market Abuse Act was finalised and

sent to the Attorney General for vetting. Moreover, three sets of Regulations to be issued in terms of the new Act, were drafted.

Investment Services Legal Notices

During the period under review, a number of Legal Notices relevant to the work of the Unit, were published. The Unit was involved in the drafting of these Legal Notices, which are referred to below:

- Legal Notice (LN 87 of 2004), entitled "European Passport Rights for Investment Firms Regulations, 2004".
- Legal Notice (LN 207 of 2004) entitled, "Undertakings for Collective Investment in Transferable Securities and Management Companies Regulations, 2004".
- Legal Notice (LN 256 Of 2004), an amendment to the "European Passport Rights for Investment Firms (Amendment) Regulations 2004".

The Legal Notices listed below were published in May 2004, by virtue of the powers granted to the Minister of Finance by the Financial Markets Act, to further transpose certain EU Investment Services Directive requirements and - in respect of the third listed LN - to enable Delivery versus Payment of securities listed on a Recognised Investment Exchange.

- Membership and Access Regulations 2004 (LN 285 of 2004)
- Off Exchange Trading Regulations, 2004 (LN 286 of 2004)
- Transfer of Listed Securities Regulations, 2004 (LN 287 of 2004)
- Legal Notice (LN 308 of 2004) entitled "European Passport Rights for Investment Firms (Amendment) Regulations, 2004".

- Legal Notice, (LN 309 of 2004) entitled "Undertakings for Collective Investment in Transferable Securities and Management Companies (Amendment) Regulations, 2004".
- Legal Notice (LN 354 of 2004) amending Legal Notice (LN 7 of 1995 (as subsequently amended)).
- Legal Notice (LN 345 of 2004) entitled "Investment Services Act (Licence and Other Fees) (Amendment) Regulations, 2004".
- On November 26, 2004 the Transparency Regulations which apply to Recognised Investment Exchanges and which originally were drafted by the ISU were published (LN 491 of 2004) and came into force on November 30, 2004.
- Legal Notice (LN 521 of 2004) entitled "Financial Conglomerates Regulations, 2004".

TRUSTS

During 2004 Act XIII of 2004 amending the Trusts Act was published and the new Trusts and Trustees Act is expected to come into force on January 1, 2005. As a result of the coming into force of the Trusts and Trustees Act there will be the elimination of ring fencing and the consequential regulation and operation of trusts within the domestic law without substantive variation or conflict with Civil Law.



Great Siege Monument

Great Siege Monument by Antonio Sciortino - erected to commemorate the great epic saga of Maltese history, the victory achieved in 1565 by the Knights Hospitallers and the Maltese against an invading numerically superior Ottoman force.



Sette Giugno Monument

Sette Giugno Monument by Anton Agius, commemorates the riots of 7th June 1919.



Enea

Enea, statue by Ugo Attardi, one of Italy's leading artists/sculptors of the 20th Century, the Statue represents ENEA, as a strong, masculine Seafarer, with his hands wide open projecting a movement from East to West, linking the classical Greek Culture with the Roman/Latin Culture, the pillar of the European Culture.

MFSA

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