

# Company Service Providers: Gatekeepers to Malta's Financial System

Company Service Providers (CSPs) are particularly vulnerable to money laundering and terrorist financing risks due to their role in forming companies and other legal entities. Nonetheless, they are essential gatekeepers to Malta's financial system, often serving as the first point of contact for individuals and entities looking to invest in Malta. In this regard, CSPs play a crucial role in preventing criminals from using legal entities to obfuscate the ownership of illicit assets. The Malta Financial Services Authority (hereinafter referred to as MFSA or the Authority) recently published "The Nature and Art of Financial Supervision Volume X – Company Service Providers Reform" which outlines the reforms implemented in the CSP sector. This document elaborates on the expectations of the MFSA for current and prospective CSPs.

The purpose of this article is to briefly examine the MFSA's CSP reform, highlighting its objectives, implementation, and the positive outcomes for Malta's financial sector. The central argument of the article is that the comprehensive reform of the CSP sector by the MFSA has significantly strengthened Malta's financial system by enhancing regulatory oversight, ensuring compliance with international standards, and fostering a risk-based and proportionate regulatory framework.

The CSP reform not only ensures that CSPs adhere to fit and proper standards, good business practices, and legal and AML/CFT requirements, but also categorises CSPs according to the nature and complexity of their services. As a result, the reform has effectively reduced the sector's risk profile and contributed to a more robust, transparent, and resilient financial environment in Malta.

## The MFSA's CSP Sector Reform

In 2019, the MFSA initiated a comprehensive reform of the CSP sector, drawing on years of regulatory

experience and incorporating recommendations from international bodies such as the Financial Action Task Force (FATF) and MONEYVAL. The reform aimed to enhance regulatory clarity by removing exemptions previously available to certain professionals and "de minimis" providers. This change has allowed the MFSA to better identify and monitor those operating as CSPs in Malta.

The MFSA's reform considered the varying business models of CSPs, recognising differences in the scale and complexity of their operations. For instance, an individual who was acting as a director for a few companies under the "de minimis" rule operated differently from a firm providing comprehensive company formation and registered office services. To address these differences, the Company Service Providers Act was amended to categorise CSPs into different classes based on their service range and complexity. A new CSP Rulebook was published in March 2021, outlining specific requirements and risk-based rules for each class. The CSP Rulebook was the result of months of consultation with stakeholders whose feedback was taken on board where possible.

## Authorisation Process and Expectations

The MFSA developed a tailored application process for CSPs, considering that many applicants were already providing CSP services. The aim of the reform was to meet two objectives: ensuring fit and proper standards, basic good business standards, and applicable legal and Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT) requirements are met on an ongoing basis, while applying a risk-based and proportionate regulatory approach. To achieve this, the CSP reform project centred around three main changes:

- **Mandatory Authorisation:** Anyone providing CSP services to third parties by way of business, including warranted professionals, was required

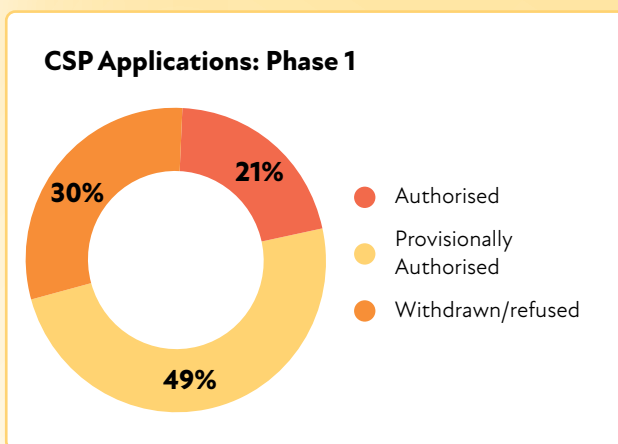
to apply for authorisation from the MFSA. Transitory provisions were included in the legislation to allow those needing to apply for authorisation to prepare for this change gradually.

- **Classification of CSPs:** The introduction of three classes of CSPs based on the services provided, as outlined in the Schedule to the amending Act. This classification allows for a more tailored regulatory approach depending on the nature and complexity of the CSP’s activities.
- **Shift from Registration to Authorisation:** All CSPs, including those already holding a Certificate of Registration under the CSP Act, had to seek authorisation. This shift ensured a higher standard of scrutiny and compliance.

To ensure a smooth transition, the Authority set two legal deadlines: one for CSPs classified as “under threshold” and another for those “over threshold”, allowing the latter to operate under provisional authorisation until November 16, 2022. During this period, applicants were assessed for their fitness and propriety, and their business models were scrutinised to ensure compliance with regulatory requirements.

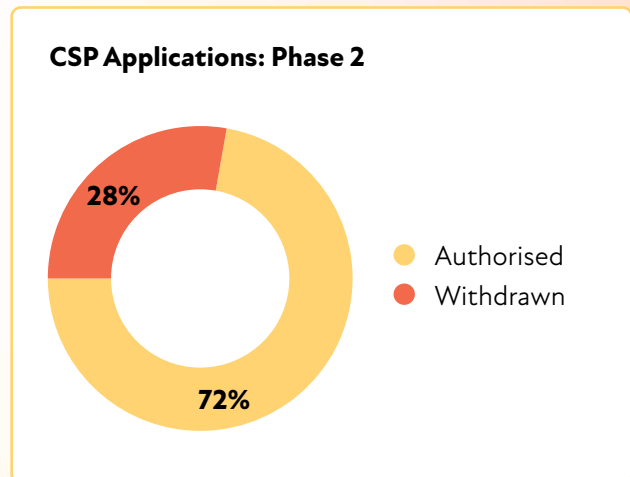
A risk-based approach was adopted, with the MFSA conducting interviews and inspections focusing on AMLCFT, and overall compliance. By the end of the process, 276 CSPs applied for authorisation.

**Table 1: Breakdown of CSP Applications as at 16 November 2021**



Between 16<sup>th</sup> May 2021 and 16<sup>th</sup> November 2021, 58 applicants were fully authorised, 136 were provisionally authorised, and 82 applications were withdrawn or refused. During the second phase, between 17<sup>th</sup> November 2021 and 16<sup>th</sup> November 2022, 100 applicants were approved, while 38 applications were withdrawn.

**Table 2: Breakdown of CSP Applications as at 16 November 2022**



**Engagement with Stakeholders**

Throughout the reform process, the MFSA engaged extensively with local regulators, including the Financial Intelligence Analysis Unit and the Malta Business Registry, to facilitate a smooth transition for CSPs seeking authorisation. Industry participants and their representatives were kept informed through regular updates and joint outreach webinars, explaining the new requirements and expectations.

In addition to these efforts, earlier this year the MFSA hosted an international conference highlighting Malta’s pioneering initiatives in regulating trustees and CSPs. This event provided a platform to discuss the successes and challenges of the reform, with key speakers including international experts and MFSA officials sharing insights on best practices and the importance of a robust regulatory framework. The conference underscored Malta’s commitment to maintaining high regulatory standards and fostering collaboration between regulatory bodies and industry stakeholders. This engagement reinforced the significance of continuous dialogue and knowledge exchange in achieving effective supervision and compliance.

**Ongoing Guidance and Compliance**

Recognising the need for clarity regarding its expectations, the MFSA issued a Guidance Note on post-authorisation requirements, encouraging CSPs to perform gap analyses to ensure compliance. The “Nature and Art” publication on the CSP Reform groups these expectations into four main categories:

- **Knowledge of Rules at Application Stage:** Applicants should have a thorough understanding

of the applicable rules and demonstrate how they will adhere to these rules in practice.

- **Fitness and Propriety:** Applicants must provide complete and transparent information, with ongoing obligations to report any changes affecting their fitness and propriety.
- **Robust Governance and Compliance Culture:** CSPs should instil a compliance culture within their organisations, ensuring strong governance frameworks and proactive management involvement.
- **Conflicts of Interest and Risk Management:** CSPs must have clear policies to identify and manage conflicts of interest effectively.

These efforts in providing ongoing guidance and ensuring compliance have laid a strong foundation for a more resilient CSP sector. By implementing a risk-based and proportionate regulatory framework, the MFSA has significantly enhanced the oversight and integrity of CSPs, ensuring they meet high standards of conduct and regulatory compliance. As a result, the MFSA has observed significant improvements in the sector's risk profile, leading to a notable impact highlighted in the subsequent

section. This comprehensive approach underscores the MFSA's commitment to fostering a robust, transparent, and resilient financial environment in Malta.

### **Impact of the Reform**

The CSP Reform has had a positive impact on Malta's financial sector. According to the National Risk Assessment 2023, the sector's overall risk rating decreased from High in 2018 to Medium High in 2023. This improvement is largely attributed to the reform initiated by the MFSA in 2019, which effectively raised the bar for CSPs by implementing stringent regulatory measures.

As a result of the reform, all professionals and individuals operating as CSPs are now under the MFSA's licensing and supervisory remit. This change has led to a 70% increase in the licensed CSP population over three years, with over 290 CSPs currently under ongoing scrutiny. These entities are subject to fitness and propriety assessments, which significantly reduce the risk of exploitation by criminals. In the interest of better regulation, the

MFSA is reviewing the CSP regime to enhance its proportionality and robustness.

### Conclusion

The MFSA's reform of the CSP sector represents a significant milestone in enhancing the integrity and transparency of Malta's financial system. By eliminating previous exemptions and introducing a risk-based, proportionate approach to regulation, the MFSA has strengthened its oversight capabilities and aligned its practices with international standards set by bodies such as the FATF and MONEYVAL. The Authority's commitment to a risk-based approach ensures that regulatory requirements are tailored to

the specific risks and complexities of different CSPs, promoting a more effective and fairer regulatory environment.

The MFSA will continue to review and adapt its regulatory framework to maintain a degree of proportionality and responsiveness to the evolving financial landscape. This ongoing refinement aims to safeguard the financial system while supporting the growth and development of the CSP sector in Malta. By fostering a culture of compliance and robust governance, the MFSA is creating a more secure and reputable financial environment, benefitting all stakeholders involved.

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