



In the second instalment of our two-part round table, *HFMWeek* talks to those in the know about the benefits of Malta's fund services industry, a strong factor in the island's growing financial success

HFMWeek: In terms of specialised funds services, what are Malta's key offerings? What sets its funds services apart from other European domiciles?

Andre Zerafa (AZ): The fund services industry has been expanding in the last few years with the establishment of a number of fund administrators and top corporate services providers such as TMF and Apex Fund Services. Custom House, following its merger with Equity Trust, has set up a Maltese structure through which they will be providing fund administration services. HSBC and Bank of Valletta have expanded their fund administration and custody business and have focused on the servicing of hedge funds by improving their systems and procedures and recruiting specialised staff. The Maltese law firms and accountancy firms have also become much more specialised and have achieved high standards of competence and efficiency. Maltese service providers' turnarounds are very efficient and the Malta package is cost effective when compared to the traditional European fund domiciles. Malta provides the best

option to the mid-sized and the small investment funds. We have also seen big names set up investment funds in Malta.

Charles Azzopardi (CA): Malta has all the intrinsic advantages of an EU domicile (Euro currency, European regulatory and legal framework) but at a lower cost base. For instance, regulatory registrar and listing fees are low, as is the renting of office space in prime sites, staff costs, and telecommunications.

Another key advantage is the accessibility and hands-on approach of our regulator – the Malta Financial Services Authority (MFSA). Our regulator encourages consultation even at a time when the fund is in gestation stage and this reduces the time to market considerably, as key regulatory and statutory issues are covered at the outset. The regulatory framework is flexible but it is comprehensive on most aspects of fund business where emphasis is also placed on investor protection.

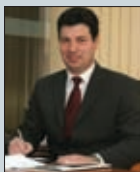
Dermot Butler (DB): Malta's key offerings are: Firstly, a very pragmatic and business-friendly regulator; this is not

to say that they do not regulate properly, but if the MFSA believes that the law needs to be changed in order for the project to work properly, and it doesn't disadvantage others, then it will consider it. In this regard, the Malta regulators resemble the Irish regulators at the beginning of the nineties.

Secondly, the Maltese legal system and the quality of the lawyers on the island are remarkable, given that they have come into hedge funds relatively late.

The third factor is that Malta, despite it being an EU-regulated centre, is very much cheaper to operate in than Dublin, Luxembourg, the UK or the Channel Islands. As yet, there aren't many international service providers in Malta but they are coming, and I expect the number of established names operating out of Malta to increase exponentially over the next five years.

Anthony O'Driscoll (AD): Malta's size is a perfect fit for independent fund administrators. It has good quality people, embraces technology and, as a jurisdiction, has proved to be quick to respond to chal-



Charles Azzopardi is the managing director of **HSBC Securities Services (Malta)**. He started his banking career in 1976, occupying various executive roles in finance, treasury, investments and fund administration.



Dermot Butler is chairman of **Custom House Global Fund Services**, which offers global hedge fund administration service through its fully integrated offices in Malta, Dublin, Luxembourg, Chicago, Singapore, Guernsey and the Netherlands.



Anthony O'Driscoll is the managing director of **Apex Malta**. Before setting up the Maltese office, Anthony worked as manager of operations at Apex Ireland. He specialises in hedge fund administration.



Andre Zerafa forms part of the Investment Services Practice at **Ganado & Associates**. He assists investment firms on regulatory and compliance matters, tax efficient structures, fund structuring, passporting and the licensing of UCITS.



“Our clients find they receive a far more personal service in Malta. The regulator is open and proactive in its approach”

allenges and opportunities in the market.

Our clients find that they receive a far more personal service in Malta. The regulator is open and proactive in its approach and far more accessible than that of other jurisdictions. This fits well with the Apex model, as Apex uses a ‘one point of contact’ service model to foster a stronger relationship between our clients and staff; it facilitates an efficient and timely resolution of fund manager and investor queries. This eliminates the need for segregation of fund administration into various departments and enables a personalised and prompt service to all our clients.

Malta can be far more flexible than our larger counterparts and is able to create bespoke solutions to suit the investment manager’s requirements.

HFMWeek: How are the high standards within Malta’s services maintained?

DB: The high standards within the hedge fund industry are now maintained, regardless of the jurisdiction, by client demand; both ‘client’ in the context of investment managers and in the context of investors, particularly since the growth of institutional investors.

The high standards required by the clients are supported by high-quality staff, good regulation and a strong legal and accounting community, which im-

poses the requirements of the regulators and the accounting bodies – for the latter, though the requirements are often over the top, they, nevertheless, have to be met.

AD: The regulator provides a statutory basis for regulating service providers from the application process to ongoing requirements and has the power to suspend or withdraw its approval of service providers. As investors look for greater transparency, service providers also need to take responsibility in ensuring that independent controls are in place and that the interests of fund investors are protected. Using the latest technology, well-trained staff and operating within a SAS70 compliant control framework goes a long way to demonstrating this and, for investment managers, these can make the differences between assets being allocated when funds have similar track records.

CA: The legal framework is solid, yet remains dynamic and flexible. While cognisant of the fact that over-regulation could be prejudicial to business and increase compliance costs, we take comfort in the fact that the MFSA is not complacent and is proactive in ensuring the legal framework is regularly updated.

The steady stream of qualified academic staff and the ongoing commitment of the Malta Funds Industry Association

(MFIA) and the MFSA to education, not to mention the international standards adopted by the Maltese audit firms and the law firms, should also help ensure quality doesn’t slide.

AZ: Last year, the launch of FinanceMalta has created increased awareness, both in Malta and overseas, of what Malta has to offer. This has meant that Maltese service providers have had to invest time and effort in human resources and new systems in line with the increase in business. Most lawyers practicing in this area normally obtain specialised degrees from foreign universities or practice with foreign firms, particularly in London, thus ensuring a high level of competence and experience in handling international clients and transactions.

All the Big Four audit firms have a strong presence in Malta and this has helped the local audit profession to acquire international contacts. Most local fund administrators form part of a much larger international corporation, so these administrators are able to utilise the systems adopted by their respective groups on an international level. The advantages to Malta-based service providers are the low costs of renting office space and hiring local staff. This allows service providers to offer the same level of service as their foreign counterparts but at more competitive pricing.

HFMWeek: Does recruitment/staff retention remain a challenge for Malta’s fund services? How is it being addressed?

DB: Malta is in the same state that Ireland was when the International Financial Services Centre (IFSC) was opened, with a surplus of qualified staff, particularly in the accounting field. However, the low costs in Malta, which correlates with salaries, are encouraging qualified Maltese personnel to seek employment elsewhere; particularly in the accounting sector, where there is an international shortage. The Maltese Government intends to encourage immigration of qualified staff from Eastern Europe, which should help. Inevitably, costs in Malta will rise, but it will take time before they get near those in Dublin and Luxembourg.

AZ: Recruitment of staff is a challenge that has been competently undertaken by local service providers with the co-operation of the Maltese Government and academic institutions. The University of Malta and some of Malta’s specialised academic institutions are also aware of developments and have stepped up ef-

forts to provide new courses, particularly on tax, accounting and law with more focus on the investment services area. The MFSA, as well as other industry-based associations, provides specialised training courses on funds. Various courses will be on offer during the forthcoming year ranging from fund administration, valuation and accounting, to portfolio management, fund incorporation and corporate secretarial.

CA: The University of Malta provides a steady annual stream of graduates in accountancy, law and other disciplines and at a lower level, the Malta College of Arts, Science and Technology is also providing courses for accounting technicians and other business and commercial subjects.

That said, although secondary- and tertiary-level institutions train resources at an academic level, it would be up to the recruiting company to train its staff in the provision of fund services and investment management. We, at HSBC Securities Services (Malta), are firm believers in staff development, and those who join us receive intensive on-the-job training in all aspects of fund administration. We pride ourselves in having high caliber staff and our staff turnover is well below that in other European jurisdictions. As part of the HSBC Securities Services family we leverage on the expertise and strength of the HSBC Group in this specialised area. Many of our staff members receive training overseas.

AD: The regulator, local service providers and organisations have, together, been very proactive in attracting young professionals into the industry with specifically designed courses that provide students with a solid practical understanding of all aspects of the funds industry.

At Apex we are committed to developing and retaining our staff through a range of advancement, training and rewards policies. The quality of our service is dependent on the quality of our staff and our organisational structure. We are using the latest technology which also ensures that we can offer a rewarding and enjoyable career path and good working environment.

HFMWeek: What changes, regulatory or otherwise, have affected Malta's funds services in recent months?

Anthony O'Driscoll (AD): The MFSA is constantly pursuing its vision to maintain an internationally recognised standard of regulation that is dynamic without being costly and burdensome. This foresight was demonstrated recently

by the MFSA as it issued a public consultation document on having Islamic finance in Malta applicable to banking and securities.

AZ: The transposition of the Markets in Financial Instruments Directive into Maltese legislation on 1 November 2007 has had a positive impact on the industry since service providers recognised the importance of complying with the new rules. The Third EU Money Laundering Directive, which was only recently transposed into Maltese law, will also affect service providers although it is still too early for this to be assessed. A third regulatory/legislative development was the issue by the MFSA of new rules for

“The challenge for Malta is to manage growth and ensure that it continues to focus on a high level of services standards”

fund administrators which now establish clear compliance parameters for these firms.

Nevertheless, Maltese administrators still remain subject to a lighter level of regulation, especially when compared to custodians and fund managers. Also, a double taxation agreement with the US was signed on 8 August 2008 and is awaiting approval by the respective legislative institutions.

CA: There is a consensus among the political parties in Malta that the financial services industry is a key growth area and this has helped foster confidence in the industry. Malta's accession to the EU was, undoubtedly, the turning point.

As more and more funds were attracted to Malta, our jurisdiction experienced an increase in credibility as a fund domicile among hedge fund promoters. The adoption of the Euro on 1 January 2008 has consolidated this.

DB: As a member of the EU, the continual flow of regulations from EU regulatory bodies will affect Malta, but no more than it affects Luxembourg and Dublin, except, perhaps, that Malta is quicker to sign up to these directives than some other member states. This can be a

double-edged sword. I recommend that Malta sits back and sees how those member states in a similar position handle the particular directive and what concessions they might be able to squeeze out of the more difficult directives. A recent directive from the European Central Bank requiring the provision of extraordinarily detailed fund information each month is a good example of this. In the case of hedge funds, some of this information was damaging as it could have exposed short positions. In this particular case, Malta would have done better to stand back, but it is still possible to renegotiate if the industry creates enough fuss.

HFMWeek: Looking ahead, what hurdles can you see for the services industry?

AZ: These are interesting times for Malta but it is important that the momentum of growth remains and that the local service providers retain their present level of efficiency within competitive cost parameters.

AD: The challenge for Malta's services industry is to manage its growth to ensure that the industry continues to focus on producing trained professionals with strong academic qualifications that maintain a high level of services standards. It must keep its competitive edge in terms of cost and continue to evolve with an ever-changing industry in order to raise our profile as being at the forefront of the financial services industry.

DB: The hurdles for the service industry apply to all jurisdictions, these are: costs, compliance with any changing regulatory requirements, staff availability and retention, and increased technological requirements. Additionally, there is the ongoing problem, regardless of the jurisdiction, of pricing some of the assets, particularly the complex, relatively liquid derivative products in times of stress.

Finally, one can anticipate additional changes in auditor's requirements, which have proved to be both expensive and, in many cases, totally pointless.

CA: I would prefer to refer to these as challenges rather than hurdles.

Malta must be careful not to be a victim of its own success. Malta's turnaround time is a key asset. We must be careful that this competitive advantage is not eroded as a number of fund domiciles are also giving importance to the improvement in turnaround time. We must, therefore, retain a flexible approach (yet maintain standards) and be determined to attract more business in the wake of heightened competition. ■