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In the negotiations leading to Malta's EU accession on May 1 2004, the financial services chapter was one of the first to be concluded. The reason for this was simply the fact that, when Malta overhauled its financial services framework in 1994, it took into account EU developments, and kept in line with them over the next 10 years. Malta has maintained this proactive approach post-accession, led by a dynamic financial services authority, the MFSA, whose open-mindedness and flexibility is shaping Malta into a viable alternative to the traditional financial centres in Europe. The key regulatory developments over the past two years maintain their European flavour, but have been carefully implemented to carve out the competitive edge for which Malta wants to be known on the financial services map.

As part of the general financial services framework, legislation is now in place with respect to the prevention of abuses in financial markets, financial conglomerates, the taxation of savings income, consumer credit, the distance selling of financial services and EU passporting rights. Preparations are under way for the implementation of MiFID (the EU's Markets in Financial Instruments Directive, which replaces the 1993's Investment Services Directive), even though the MFSA's foresight over the years has led to regulatory standards that need mere fine-tuning rather than radical overhaul to be compliant with MiFID's enhanced conduct of business requirements.

The major new piece of financial services legislation in Malta over the past few years has been the Trusts and Trustees Act, which came into force on January 1 2005. This Act replaced the Trusts Act of 1988, which was only of limited application, by implanting the trust concept across all the spheres of activity in which trustees are called to provide their service. All trustees in Malta are subject to a strict licensing regime, requiring three approved persons in the case of a corporate trustee, and adherence to prevention of money laundering standards. Trust registration has been eliminated, and the law now focuses on the rights and duties of trustees, opening the door for the use of trusts in specialized areas such as investment and securitization.

Also, on May 1 2004 Malta implemented the EU UCITS III

Directives. It is now possible to form UCITS III-compliant investment funds in Malta, which may then benefit from an EU-wide passport. This has led to increased interest from international fund managers, who increasingly regard Malta – with its efficient tax regime, numerous tax treaties, rigorous yet flexible regulator and excellent financial and telecommunications infrastructure – as a serious base for marketing their investment products across the EU.

Another development in the fund management industry (though in the non-retail sector) is the possibility of setting up professional investor funds or hedge funds. These funds benefit from an extremely flexible regime, quick licensing and, from the Maltese viewpoint, attract no income tax or capital gains tax liability at fund level. Yet they give all the required guarantees to be admitted to listing both on the Malta Stock Exchange and on specialized international investment exchanges.

Corporate redomiciliations to Malta are generally on the increase. This is especially true in the area of international trading and international holding companies, where Malta offers a number of advantages that were greatly enhanced by EU membership. In its 2004 Annual Report the MFSA reported that during that year, 290 companies formerly incorporated and registered outside Malta transferred their domicile to Malta under the Continuation of Companies Regulations. Redomiciliation is allowed from all EU, EEA and OECD states, the Bahamas, Bermuda, the British Virgin Islands, the Cayman Islands, Gibraltar, Guernsey, the Isle of Man, Jersey and Mauritius, which have appropriate provisions in their laws. The redomiciliation must also be provided for in the charter, statutes or memorandum and articles, or other instrument constituting or defining the foreign company.

In the pension fund industry, the Special Funds (Regulation) Act, which came into force on October 1 2002, provides a statutory basis for the registration and regulation in Malta of retirement schemes, retirement funds and their related parties. It is intended to cover schemes or arrangements that provide retirement benefits to residents of Malta as well as to non-residents. The legislation encourages the development of funded second pillar and third pillar pension arrangements by companies setting up plans for their own employees, and by service providers, who would create packaged plans for individuals and smaller businesses.

On a more technical level, regulations are now in place to govern set-off and netting on insolvency, and financial collateral. The Financial Collateral Arrangements Regulations transpose Directive 2002/47/EC on financial collateral arrangements into Maltese law. However, they extend not only to the category of persons mentioned in the Directive (typically when both counterparties are licensed under one of the EU Directives on investment firms, credit or financial institutions or Ucits), but also if one counterparty is a person other than a natural person, including unincorporated firms and partnerships, as long as the other counterparty falls under the Directive. In this way, financial collateral arrangements entered into by non-Ucits funds – including professional investor funds or hedge funds – will be valid and enforceable.

Without doubt, the Maltese financial services landscape is changing in line with the rhythm of Europe, yet the notes played from the shores of this Mediterranean island are increasingly more evocative to the ears of the international financial markets.

Banking and capital markets

Recommended firms

Tier 1

Camillieri Preziosi Advocates

Ganado & Associates

Mamo TCV

Tier 2

CDF Advocates

Fenech & Fenech Advocates

Galea Salomone & Associates

Mergers and acquisitions

Recommended firms

Tier 1

Camillieri Preziosi Advocates

Mamo TCV

Tier 2

Fenech & Fenech Advocates

Ganado & Associates

Tier 3

Galea Salomone & Associates

Gatt Frendo Tufigno Advocates

Camillieri Preziosi Advocates

Founded in 1967, Camillieri Preziosi is a regular fixture in the top tier of Malta's rankings. The firm is known for its strong track record advising on large financing transactions in Malta. The two-partner firm is based in Valletta, and employs seven associates.

Louis de Gabriele is the partner in charge of banking and finance and is held in high esteem by his competitors. Among the year's highlights, de Gabriele advised the Bank of Valletta

on a €200 million (\$244 million) syndicated term loan facility. The banking practice at Camillieri Preziosi is well established, and has represented foreign banks operating from Malta and smaller local banks. The firm often advises foreign banks providing financing to Maltese companies. Louis de Gabriele's clients in this area include Bank of Valletta, Bawag Bank, Erste Bank, Sparkasse Bank and the Commonwealth Bank of Australia.

De Gabriele also handles capital markets work and has an impressive roster of capital markets clients, including the Bank of Valletta and Charts Investment Management International. New regulations on the island have led to a much lower level of capital markets activity this year, which meant that no primary issues came to the market in 2004. However, the firm has an excellent reputation in this area, and in recent times has advised on the privatizations of Malta Freeport Terminals and Malta International Airport. Camillieri Preziosi also worked on the first convertible bond issue in Malta, for International Hotel Investments.

The firm's corporate practice has a similarly impressive track record in Malta. The practice, led by Henri Mizzi, often wins leading roles on the highest-profile privatization transactions. Examples of top-flight M&A work over the past year included an instruction from the government of Malta in connection with the sale of its majority shareholding in Maltacom, and advising on the Interactive Gaming Holdings' acquisition of Matthew Simmonds International.

Leading lawyers

Louis de Gabriele

Henri Mizzi

Key contact partners

Louis de Gabriele

Henri Mizzi

CDF Advocates

Dr Frank Chetcuti Dimech is the managing partner of two-partner firm CDF Advocates. Based in Valletta, his firm has been one of the main advisers to the Bank of Valletta since 1996, and this year advised on the purchase of €2 million (\$2.4 million)-worth of share capital in the European Monetary Fund.

The firm focuses on banking and financial services work, and tends not to handle many corporate instructions. CDF Advocates has been through some changes this year, which has involved the transfer of part of its business to a specialized translation services subsidiary that employs 20 people, six of which are legally qualified.

Leading lawyer

Frank Chetcuti Dimech

Key contact partner

Frank Chetcuti Dimech

Fenech & Fenech Advocates

Fenech & Fenech Advocates can trace its roots back over 100 years. The firm now employs 19 lawyers, led by managing partner Tonio Fenech, who joined the firm in 1987. Tonio Fenech is seen as a star lawyer in banking and finance in Malta, and he was joined by Ann Fenech in 1992 and partner Nicolai Vella Falzon in 2002. Falzon is noted as a rising star in the corporate market by his rivals.

The firm excels in marine litigation work, a large part of which is handled by Ann Fenech. The firm's client roster includes large international companies with interests in Malta, international and local banks, insurance firms and ship owners.

Leading lawyer

Tonio Fenech

Key contact partners

Rosanne Bonnici

Ann Fenech

Tonio Fenech

Galea Salamone & Associates

The intricacies of the capital markets are the speciality of Galea Salamone & Associates, although this area has been rather quiet over the past year. Managing partner Arthur Galea Salamone is the deputy chairman of the Malta Stock Exchange, and so is well placed to advise on securities and matters, as well as keeping abreast of the latest regulatory developments. And the Stock Exchange often turns to the firm for advice, for example, when it required assistance and guidance on drafting its listing rules and drawing up trading standards for activity on the exchange.

The Maltese legal market highly recommends Arthur Galea Salamone and his six-lawyer firm.

Leading lawyer

Arthur Galea Salamone

Key contact partners

Mariliese Buhagjar

Arthur Galea Salamone

Ganado & Associates

Ganado & Associates is one of the largest law firms in Malta, with 17 lawyers. The firm focuses primarily on banking, shipping and commercial law. High-profile partner Max Ganado is one of the most highly rated lawyers in the market and helped put together the new Trusts and Trustees Act, which was made law in January this year. The rule amends the former law on trusts, and allows residents and non-residents to set up trusts in Malta. It is expected that the new law will open up new business opportunities on the island.

Ganado & Associates is the only Maltese member firm of worldwide legal alliance Lex Mundi.

Leading lawyers

Stephen Attard

Max Ganado

Key contact partner

Max Ganado

Mamo TCV

Overwhelming market support for Valletta law firm Mamo TCV elevates the firm into the top tier this year both for the finance and corporate rankings. Mamo TCV is the result of the merger between Tonna Camilleri Vassallo & Co and John Mamo & Associates.

The firm is one of the largest in Malta, with 30 legal and paralegal employees. Leading partner Andrew Muscat is highly recommended for his expert advice on banking and capital markets transactions.

Mamo TCV has an impressive depth of experience advising clients on large capital markets deals, one example being its role on Malta Freeport's \$250 million bond issue. The corporate practice at Mamo TCV also has a history of handling large and complex instructions, recently advising on the incorporation of a Maltese and UK internet services joint venture.

Leading lawyer

Andrew Muscat

Key contact partner

Andrew Muscat