

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

Circular to Credit Institutions on Banking Rule BR/09

The Authority is hereby issuing two annexes to Banking Rule BR/09 on the “Measures addressing credit risks arising from the assessment of the quality of asset portfolios of Credit Institutions authorised under the Banking Act (hereinafter the “Rule”).

Annex 1 – Connected Clients under Article 4(1)(39) of Regulation (EU) No 575/2013

In implementing EBA Guideline EBA/GL/2017/15, Annex 1 clarifies the treatment of connected clients under Article 4(1)(39) of the Regulation (EU) No 575/2013 (‘the CRR’).

Annex 1 specifies the approach required by credit institutions in applying the requirement to group two or more clients into a “group of connected clients” since they constitute a single risk as defined in Article 4(1)(39) of the CRR. This Annex applies to all areas of the CRR where the concept of connected clients is used. Credit institutions shall assume that two or more clients constitute a single risk in the instance that there is a control relationship between them, which is assessed according to the criteria set out in the Annex. Additionally, provision is made for the establishment of interconnectedness based on economic dependency, according to Article 4(1)(39)(b) of the CRR, together with control and management procedures to be established by credit institutions for identifying connected clients.

Annex 2 – Limits on exposures to shadow banking entities

Annex 2 to BR/09 implements EBA Guideline EBA/GL/2015/20, setting limits on exposures to shadow banking entities which carry out banking activities outside a regulated framework under Article 395(2) of the CRR.

Annex 2 prescribes the approach and states the methodology which credit institutions shall adopt, as part of their internal processes and policies, for the purposes of handling risk arising from exposures to shadow banking. Such entities are generally not subject to the same standard of prudential regulation in accordance with Article 395(2) of the CRR, do not protect investors’ investment from these entities’ failures and do not have access to central banks’ liquidity facilities. Therefore, this Annex sets out the credit institutions’ provision of specific limits for appropriate individual and aggregate limits for such exposures. In accordance with this Annex, credit institutions shall establish an internal framework to identify, manage, control and mitigate the risks arising from exposures to shadow banking entities, which framework is overseen by the Board of Directors of the credit institutions.

Revisions to BR/09

New paragraphs 63A and 70A have been added to BR/09 to allow for the inclusion of the above-stated Annexes. The MFSA is currently working on further revising this Rule to align with applicable accounting standards and regulatory developments. Such revisions are not reflected in this version of BR/09 being published.

The revised BR/09 and Annexes shall come into force with immediate effect.

Any queries in relation to the above should be directed to the Banking Supervision Unit (Policy Section) on bsupolicy@mfsa.com.mt.

Communications Unit
Malta Financial Services Authority
11 January 2019