



BANK ĊENTRALI TA' MALTA
ELROSISTEMA
CENTRAL BANK OF MALTA

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

STATEMENT OF DECISION
ON THE METHODOLOGY FOR THE IDENTIFICATION OF OTHER SYSTEMICALLY IMPORTANT
INSTITUTIONS AND THE RELATED CAPITAL BUFFER CALIBRATION



1. BACKGROUND

The other systemically important institutions (O-SIIs) capital buffer is a macro-prudential tool legally embedded in the CRDIV/CRR framework which, in turn, has been domestically transposed in Central Bank of Malta Directive No. 11 and MFSA Banking Rule 15. The O-SII buffer consists of a capital surcharge which is applied to institutions that due to their systemic importance are more likely to create risks to financial stability arising from misaligned incentives and moral hazard. Whilst maximizing private benefits through rational decisions, these institutions may bring negative externalities into the system and contribute to market distortions. This additional capital buffer is applied to domestically significant institutions to increase their resilience by increasing their loss absorbing capacity and thus ensure that these institutions pose minimal risk to the domestic economy in the form of externalities.

The Malta Financial Services Authority and the Central Bank of Malta (hereunder referred to as the 'Authorities') as per Ln 29 of 2014 (S.L.204.06) developed a methodology for the identification of O-SIIs and the related capital calibration. In line with CRDIV, the framework outlined in this Policy Document applies to all credit institutions, investment firms, and parent financial (or mixed financial) holding companies within the domestic financial sector at their highest level of consolidation in Malta.¹ Three banks were identified as O-SIIs. These banks were subject to a capital buffer requirement based on a four-year phase-in period.

The Authorities have re-run the methodology for the identification of O-SIIs and the related capital calibration as per Directive 11 para 41 (b), which requires the O-SII buffer to be reviewed on an annual basis.

2. STATEMENT OF DECISION

Based on the methodology featured in the policy document of 2015, the three O-SIIs identified last year are being reconfirmed for 2019.

The table below shows on the basis of which step in the framework these institutions were designated as O-SIIs as well as which buffer rates shall apply.² These credit institutions have also been provided with more details on the results of the methodology via a separate communication.

¹ MFSA CBM Policy Document on the 'methodology for the identification of other systemically important institutions and the related capital buffer calibration'.

² See Tables 2 and 3 of the policy document for more details.



Table 1 – Capital buffer rate based on a stepped framework for O-SII identification

Credit Institution	Determination as O-SII based on Step 1 or 2	Buffer rate
MeDirect Group Ltd.	Step 2	0.5%
HSBC Group Malta	Step 1	1.5%
Bank of Valletta Group	Step 1	2.0%

Given that no changes were registered for the year 2019 compared to the results of last year, these credit institutions shall continue to build their O-SII capital buffer as established in 2015 leading to a fully-loaded O-SII buffer rate for 2019 as indicated in Table 2 of this document.

Table 2 – Transitory provisions for the build-up of O-SII buffer

Credit Institution	2016	2017	2018	2019
MeDirect Group Ltd.	0.125%	0.25%	0.375%	0.5%
HSBC Group Malta	0.375%	0.75%	1.125%	1.5%
Bank of Valletta Group	0.5%	1.0%	1.5%	2.0%

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