MFSA

MALTA FINANCIAL SERVICES AUTHORITY

Publication of Revised
MFSA Rule 1 of 2012 on Foreign Currency Lending

The MFSA is today publishing a revised version of MFSA Rule 1 of 2012 on Foreign Currency Lending. The changes to the Rule, as indicated below, have been made to incorporate new provisions reflecting Guidelines issued by the EBA *on capital measures for foreign currency lending to unhedged borrowers under the Supervisory Review and Evaluation Process (SREP).*

The amendments to MFSA Rule 1 of 2012 relate to Principle 4 on Capital requirements:

Former Principle 4	Revised Principle 4
30. The Authority requires financial institutions to hold adequate capital to cover risks associated with foreign currency lending, particularly the risks stemming from the non-linear relation between credit and market risks.	30. The Authority requires financial institutions to hold adequate capital to cover risks associated with foreign currency lending, particularly the risks stemming from the non-linear relation between credit and market risks.
31. In particular, credit institutions are required to implement specific measures under the Supervisory Review Process laid down in Banking Rule BR/12. Assessment in this respect shall be made by the Authority under its supervisory review and evaluation process (SREP) described in BR/12 and/or under legislation setting out capital requirements for credit institutions. If the capital held by credit institutions is considered to be insufficient to adequately address risks associated with foreign currency lending, the Authority may request credit institutions to increase their capital holdings for this purpose.	31. In particular, credit institutions are required to identify their foreign currency lending risk to unhedged borrowers, on an annual basis unless otherwise specified by the Authority, by applying the following threshold: - Loans denominated in foreign currency to unhedged borrowers constitute at least 10% of an institution's total loan book (total loans to non-financial corporations and households), where such total loan book constitutes at least 25% of the institution's total assets. An institution is considered to have a material level of foreign currency

	lending risk if the above threshold is met. 32. In cases where foreign currency lending risk is material, credit institutions are required to implement specific measures under the Supervisory Review Process laid down in Banking Rule BR/12. Assessment in this respect shall be made by the Authority under its supervisory review and evaluation process (SREP) described in BR/12 and/or under legislation setting out capital requirements for credit institutions. If the capital held by credit institutions is considered to be insufficient to adequately address risks associated with foreign currency lending, the Authority may request credit institutions to increase their capital holdings for this purpose.

The revised Rule is available for download from the Authority's website.

Contacts:

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