

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

Feedback Statement

December 2012

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Introduction

This Feedback Statement reports on the main issues arising from MFSA's Consultation Document entitled: **Proposals for MFSA Rules on US Dollar Funding**. On 5th November 2012, the MFSA issued a consultation document on this topic to stimulate debate and receive views by 21st November 2012.

This Feedback Statement summarises the comments on issues raised in the Consultation Document. MFSA's Consultation Documents proposed a new US Dollar Funding Rule with the accompanying reporting template. Only one respondent commented and made suggestions on the Rule published for consultation while no feedback was received as to the contents of the reporting template. The respondent was in agreement with the main proposals and recommendations made in the Consultation Document save with some clarifications. This Feedback statement is written in the form of a question and answer with every comment by the respondent followed by a statement by the MFSA.

An updated draft of the new US Dollar Funding Rule and its accompanying reporting template are being circulated with this Feedback Statement.

Comments made on the US Dollar Funding Rule

Para. 9 of the US Dollar Funding Rule – Scope and Application

9. *The Authority shall monitor and control US Dollar funding at both consolidated and unconsolidated (solo basis) level, as it considers appropriate, in accordance with the provisions of relevant legislation.*

Respondent’s Comments: The Respondent requested a definition of the term ‘consolidated and unconsolidated (solo basis)’.

Authority’s Comments: The MFSA has decided to define the term as requested.

Principle 1, Para. 12 of the US Dollar Funding Rule – Monitoring of US Dollar Funding and Liquidity

12. *Credit institutions shall, in particular monitor:*

- (i) The source and utility of US Dollar funding;*
- (ii) Maturity mismatches in US Dollars, resulting from (i);*
- (iii) Funding concentrations by counterparty type, with a focus on short-term funding from such counterparties;*
- (iv) Use of US dollar currency swaps, including currency interest rate swaps;*
- (v) Intra-group exposures.*

Respondent’s Comments: The Respondent requested for a definition of the following three terms:

- i.** ‘Maturity mismatches’
- ii.** ‘Funding Concentrations’
- iii.** ‘US Dollar currency swaps’

Authority’s Comments: The MFSA has decided to draft all three definitions requested.

Principle 3, Para. 15 of the US Dollar Funding Rule – Contingency Funding Plans

15. *Credit institutions shall have in place contingency funding plans which:*

- (i) provide for management actions to handle a shock in US Dollar funding;*
- (ii) consider the feasibility of the actions under (i) if more than one credit institution tries to undertake similar actions at the same time;*
- (iii) consider the contingency funding sources available in the event of a reduction in supply from different counterparty classes.*

Respondent’s Comments: The Respondent requested for a definition of the term ‘shock’.

Authority’s Comments: The MFSA is of the opinion that the term ‘shock’ cannot be appropriately defined within the limited structure of the Rules. The Authority is currently considering the introduction of guidelines for this purpose.

Para. 22 & 23 of the US Dollar Funding Rule – Submission to the Authority

22. *Credit institutions identified by the Authority as having significant level of US Dollar funding shall fill in the template specified in Annex A and submit it to the Authority on a semi-annual basis, or as may be specified by the Authority. The template should be submitted within one month from the end of each reporting period.*

23. *Credit institutions with material US Dollar funding shall include the respective and inherent risk management actions and procedures within their ICAAP report.*

Respondent’s Comments: The Respondent requested for a definition of the term ‘material US Dollar funding’.

Authority’s Comments: The reporting obligation set out in the Rule is only triggered once the amount of funding in US Dollar reaches a certain level when compared to the Bank’s overall funding. The ESRB Recommendations use the term ‘material’ for the purpose of determining the relevant level of US Dollar funding. The MFSA has therefore decided to use the term ‘material’ and define it in terms of a percentage of the overall funding of the Bank, while removing the term ‘significant’ from the MFSA Rule.

Respondent’s Comments: The Respondent requested for a definition of the term ‘ICAAP Report’.

Authority’s Comments: The MFSA has decided to define the term as requested.

Communications Unit
Malta Financial Services Authority
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