

Supervisory review and evaluation process (SREP) ⁽¹⁾		
010	Date of the last update of information in this template	31/07/2019
020	<p>Scope of application of SREP (Articles 108 to 110 of CRD)</p> <p>Description of the approach of the competent authority to the scope of application of SREP including:</p> <ul style="list-style-type: none"> what types of institutions are covered by/excluded from SREP, especially if the scope is different from those specified in Regulation (EU) No 575/2013 and Directive 2013/36/EU; a high-level overview of how the competent authority takes into account the principle of proportionality when considering the scope of SREP and frequency of assessment of various SREP elements⁽²⁾. 	<p>The scope and application of SREP in Malta is governed by Subsidiary legislation 371.16 Banking Act (Supervisory Review) Regulations and is applicable to less significant institutions (LSIs). Credit Institutions (CIs) classified as "Significant Institutions" (SIs) are assessed by the ECB, in accordance with SSM Regulation. In conducting the SREP on LSIs in Malta, the MFSA is guided by the ECB's guidance on SREP for LSIs which in turn are modelled on the EBA Guidelines on SREP (EBA/GL/2014/13).</p> <p>The MFSA has developed Banking Rule BR/12 which applies to all LSIs with the main scope being that of ensuring that banks have sufficient capital to support all material risks which their business exposes them to. As a general principle, the requirements of Banking Rule BR/12 are applied by the MFSA in a proportionate manner, reflecting the nature, scale and complexity of the activities of the CI concerned. The concept of proportionality is also based on the different categories in which CIs are placed based on an on-going assessment. The MFSA establishes the frequency and intensity of such SREPs on the basis of such categorisation. Also, in carrying out the SREP assessment the MFSA applies the principle of proportionality by focusing on the risk areas that are most relevant to the respective bank.</p> <p>Banking Act (1994) Banking Rule BR/12 S.L. 371.16 Banking Act (Supervisory Review) Regulations</p>
030	<p>Assessment of SREP elements (Articles 74 to 96 of CRD)</p> <p>Description of the approach of the competent authority to the assessment of individual SREP elements (as referred to in EBA Guidelines on common procedures and methodologies for SREP- EBA/GL/2014/13) including:</p> <ul style="list-style-type: none"> a high-level overview of the assessment process and methodologies applied to the assessment of SREP elements, including: <ul style="list-style-type: none"> (1) business model analysis, (2) assessment of internal governance and institution-wide controls, (3) assessment of risks to capital, and (4) assessment of risks to liquidity and funding; a high-level overview of how the competent authority takes into account the principle of proportionality when assessing individual SREP elements, including how the categorisation of institutions have been applied⁽³⁾. 	<p>The MFSA has in place a Risk Assessment Tool (RAT) which is applied to all LSI credit institutions in Malta. The key objective of the RAT is to take into account the widest possible range of both quantitative and qualitative indicators, assess each CI's risk levels and controls and then determine an overall risk score. The RAT tool reflects best practices from various supervisory authorities including ECB methodology.</p> <p>The RAT is based on two components – an evaluation of the Risk Level and the respective Risk Control. The assessment of the Risk Level is mainly based on a quantitative data while the evaluation of the Risk Control is reliant on a qualitative analysis of the bank's risk mitigation and control factors. CIs are assessed on a number risk categories that include:</p> <ul style="list-style-type: none"> - Business model analysis; - Internal governance and risk management assessment; - Assessment of risks to capital; and - Assessment of risks to liquidity and funding. <p>The qualitative assessment ensures that the assessment of individual risks is undertaken in a proportionate manner, reflecting the nature, scale and complexity of the activities of the CI concerned.</p> <p>In terms of methodology for all elements the MFSA follows the SSM's operational guidance on SREP for LSIs.</p> <p>To prioritise LSIs the MFSA applies the SSM's methodology which prioritises banks as a function of size, interconnectedness and complexity.</p>
040	<p>Review and evaluation of ICAAP and ILAAP (Articles 73, 86, 97, 98 and 103 of CRD)</p> <p>Description of the approach of the competent authority to the review and evaluation of the internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP) as part of the SREP and, in particular, for assessing the reliability of the ICAAP and ILAAP capital and liquidity calculations for the purposes of determining additional own funds and quantitative liquidity requirements including⁽⁴⁾:</p> <ul style="list-style-type: none"> an overview of the methodology applied by the competent authority to review the ICAAP and ILAAP of institutions; Information/reference to the competent authority requirements for submission of ICAAP and ILAAP related information, in particular covering what information need to be submitted; Information on whether an independent review of the ICAAP and ILAAP is required from the institution. 	<p>Article 17C of the Banking Act requires every CI to establish their own ICAAP. ILAAP is defined by EBA SREP GL as equivalent to Article 86 of the CRD IV, which has been transposed in paragraph 15, LIQUIDITY RISK in Banking Rule 12 in Annex 2B.</p> <p>The MFSA considers the robustness of a CI's internal governance process as invariably an essential component of the institution's ICAAP. The ICAAP and ILAAP documents serve as a basis for the management of CIs to ensure that there is adequate identification, measurement, aggregation and monitoring of its risks, there is adequate internal capital and liquidity, and that it uses sound risk management systems. Whilst the ICAAP and ILAAP remains the institution's responsibility, the Authority analyses:</p> <ul style="list-style-type: none"> - the way the CI has structured its ICAAP and ILAAP review; - the assumptions which are used to determine underlying risks; - assesses risk sensitivity and confidence levels; and - assess how risks are aggregated. <p>Through the annual analysis of ICAAPs and ILAAPs and continuous dialogue with the CIs, the MFSA ensures that the institutions draw up a comprehensive and adequate ICAAP/ILAAP on an annual basis which addresses the nature of their risks posed by their business activities and operating environment. The Authority also ensures that the ICAAP/ILAAP process takes into account the impact of economic cycles and sensitivity to other external risks and factors.</p> <p>In order to evaluate the ICAAP and ILAAP, including the adequacy of capital and liquidity held by a CI, the Authority reviews the CI's exposure to all material risks (its risk profile), the adequacy and reliability of its internal governance, the adequacy of its own funds and liquidity and the internal capital mitigants it has set against its risks. The Authority also assesses whether capital alone is the correct means of addressing the institution's vulnerabilities and/or whether new systems, processes and procedures need to be put in place. In performing this assessment, the Authority is guided by the SSM's guides for banks on their capital and liquidity management, published on 9 November 2018.</p> <p>It is a CI's responsibility to assess the adequacy of its ICAAP/ILAAP methods, systems and processes, basing itself primarily on the nature (i.e. risk level and complexity) and scale of the institution's business activities. The conclusion on the overall quality of the ICAAP/ILAAP is supported by assessment of areas below of the ICAAP/ILAAP assessment.</p> <ol style="list-style-type: none"> Internal Governance & roles of Management Body (MB) and Senior Management (SM) - whereby the level of involvement of the MB and SM is assessed whether it is adequate (designing/approving, understanding, discussing, using). Funding strategy and liquidity planning – to ensure that there is a sound liquidity planning process covering different perspectives. Scenario design, stress testing and contingency funding plan – the bank has a sufficiently severe stress testing with appropriate customised scenarios which play an essential role in funding strategies and in assessing the liquidity adequacy in the ILAAP. Internal controls, independent reviews and ILAAP documentation, so as to ensure that the ILAAP is protected by an appropriate control environment, including specific independent reviews and comprehensive and up-to-date documentation. Data, infrastructure, risk capture, measurement & aggregation, which ensures that there is a solid foundational risk measurement and management and robust data and IT infrastructures supporting the ILAAP. <p>As a general rule, the MFSA requires that the institutions' ICAAP and ILAAP documents are independently reviewed, by the Internal Audit Function of the institutions.</p> <p>ECB guide for banks on their capital and liquidity management ECB guide for banks on their capital and liquidity management</p>
050	<p>Overall SREP assessment and supervisory measures (Articles 102 and 104 of CRD)</p> <p>Description of the approach of the competent authority to the overall SREP assessment (summary) and application of supervisory measures on the basis of the overall SREP assessment⁽⁵⁾.</p> <p>Description of how SREP outcomes are linked to the application of early intervention measures according to Article 27 of Directive 2014/59/EU and determination of conditions whether the institution can be considered failing or likely to fail according to Article 32 of that Directive⁽⁶⁾.</p>	<p>In carrying out the SREP, the MFSA reviews and evaluates the CIs' internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure their compliance with own funds' requirements.</p> <p>The results of the assessment form the basis of the qualitative and quantitative supervisory measures under SREP. These are communicated formally to the CI in the SREP letter, following the Supervisory Dialogue.</p> <p>When serious regulatory issues come to the fore from the on-going SREP assessment, an on-site inspection / thematic review may be carried out. The Authority is also empowered to take supervisory action in line with the provisions at law on the basis of the SREP assessment. Such supervisory powers may take the form of capital and liquidity requirements as well as powers to request the CI to undertake remedial action in terms of Article 104 CRD IV as transposed into local legislation (S.L. 371.16 Banking Act (Supervisory Review) Regulations).</p> <p>The EBA Guidelines on triggers for the use of early intervention measures (the Guidelines) specify conditions under which the application of early intervention measures should be considered. In particular, they identify triggers for assessing early intervention measures relating to the SREP assessment, but also outside the SREP assessment.</p> <p>Moreover, the need for an early intervention measure or a failing or likely to fail (FOLTF) determination can be made by the Authority based on the outcomes of the SREP performance in accordance with Regulation 3(1) of the Banking Act (Supervisory Review) Regulations (S.L. 371.16) and the EBA SREP Guidelines.</p>

⁽¹⁾Competent authorities shall disclose the criteria and methodologies used in rows 020 to 040 and in row 050 for the overall assessment. The type of information that shall be disclosed in form of an explanatory note is described in the second column.

⁽²⁾The scope of SREP to be considered both at a level of an institution and in respect of its own resources.

A competent authority shall explain the approach used to classify institutions into different categories for SREP purposes, describing the use of quantitative and qualitative criteria, and how financial stability or other overall supervisory objectives are affected by such categorisation.

A competent authority shall also explain how categorisation is put in practice for the purposes of ensuring at least a minimum engagement in SREP assessments, including the description of the frequencies for the assessment of all SREP elements for different categories of institutions.

⁽³⁾Including working tools e.g. on-site inspections and off-site examinations, qualitative and quantitative criteria, statistical data used in the assessments. Hyperlinks to any guidance on the website are recommended.

⁽⁴⁾Competent authorities shall also explain how the assessment of ICAAP and ILAAP is covered by the minimum engagement models applied for proportionality purposes based on SREP categories as well as how proportionality is applied for the purposes of specifying supervisory expectations to ICAAP and ILAAP, and in particular, any guidelines or minimum requirements for the ICAAP and ILAAP the competent authorities have issued.

⁽⁵⁾The approach competent authorities apply to arrive to the overall SREP assessment and its communication to the institutions. The overall assessment by competent authorities is based on a review of all the elements referred to in row 020 to 040, along with any other relevant information about the institution that the competent authority may obtain.

⁽⁶⁾Competent authorities may also disclose the policies that guide their decisions for taking supervisory measures (within the meaning of Articles 102 and 104 of the CRD) and early intervention measures (within the meaning of Article 27 of the Bank Recovery and Resolution Directive (BRRD)) whenever their assessment of an institution identifies weaknesses or inadequacies that call for supervisory intervention. Such disclosures might include the publication of internal guidelines or other documents describing general supervisory practices. However, no disclosure is required regarding decisions on individual institutions, to respect the confidentiality principle.

Furthermore, competent authorities may provide information regarding the implications if an institution violates relevant legal provisions or does not comply with the supervisory or early intervention measures imposed based on the SREP outcomes, e.g. it shall list enforcement procedures that are in place (where applicable).