

## Annex III

Supervisory review and evaluation process (SREP) <sup>(1)</sup>		
010	<i>Date of the last update of information in this template</i>	31/07/2019
020	<p><b>Scope of application of SREP</b> (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"> <li>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;</li> <li>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<sup>(2)</sup></li> </ul>	<p>Investment Firms are required to maintain and review, on a yearly basis, a Risk Management and Internal Capital Adequacy Assessment Process (RMICAAP) document covering:</p> <p>(i) Risk Management (RM); and (ii) Internal Capital Adequacy Assessment Process (ICAAP).</p> <p>All Investment Firms are required to review their ICAAP on a yearly basis and are required to submit an annual confirmation that the RMICAAP in place is comprehensive an proportionate to the nature, scale and complexity of the respective Investment Firm (as specified in Part B1 of the Rules applicable to Investment Services Licence Holders which Qualify as MIFID Firms ("the Rules")). Firms are also required to provide quarterly COREP Returns in terms of the Rules.</p> <p>Entities in possession of an Investment Services Licence and are also licenced by the MFSA as Credit Institutions are not required to submit an RMICAAP in relation to the Investment Services activities.</p> <p>S.L. 370.15 - Supervisory Review Regulations Part B1 of the ISR - Chapter 3 Title 2, Section 3 - Risk Management and the Internal Capital Adequacy Assessment Process</p>
030	<p><b>Assessment of SREP elements</b> (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"> <li>a high-level overview of the assessment process and methodologies applied to the assessment of SREP elements, including: (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;</li> <li>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<sup>(3)</sup>.</li> </ul>	<p>The MFSA carries out both onsite and offsite work in relation to Investment Firms. The SREP would take into consideration various types of assessments, namely:</p> <p>(1) The MFSA reviews business models upon application stage of an Investment Firm and following any changes impacting the business model of the respective Firm.</p> <p>(2) The MFSA conducts onsite inspections whereby inter alia assessing the Investment Firms' governance set-up, risk and compliance functions.</p> <p>(3) Investment Firms are required to perform suitability assessments on members of the management body and key function holders, and on an annual basis provide the MFSA with a confirmation stating whether these checks have shown adverse information or otherwise provide therelevant details accordingly.</p> <p>(4) Investment Firms are required to submit on a quarterly basis COREP Returns. The Authority assess these returns to ensure compliance with the required regulations.</p> <p>(5) Investment Firms are required to review and confirm to the MFSA on an annual basis that they have performed/ reviewed their capital adequacy assessment (ICAAP). The review ensures that:</p> <p>(i) ICAAP covers all the possible risks that the Investment Firm is exposed to; and (ii) Proposed mitigation strategies and arrangements are adequate.</p> <p>The MFSA ensures that the ICAAP is prepared and reviewed annually as to reflect all supervisory knowledge of the respective Firm.</p>
040	<p><b>Review and evaluation of ICAAP and ILAAP</b> (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<sup>(4)</sup>:</p> <ul style="list-style-type: none"> <li>an overview of the methodology applied by the competent authority to review the ICAAP and ILAAP of institutions;</li> <li>Information/reference to the competent authority requirements for submission of ICAAP and ILAAP related information, in particular covering what information need to be submitted;</li> <li>information on whether an independent review of the ICAAP and ILAAP is required from the institution.</li> </ul>	<p>Section 3 of Title 2 of Chapter 3 of the Rules requires Investments Firms to establish their own ICAAP and guides firms as to the content to include in their ICAAP.</p> <p>In evaluating the adequacy of the ICAAP, the Authority reviews the content with respect to information and the adequacy of the risk assessment of the firm together with information available from: (i) onsite inspections; (ii) on-going quarterly returns; and (iii) other information obtained through the course of offsite supervision. Through this exercise, the Authority evaluates also whether current capita levels are adequate, as well as, assess whether additional Pillar II capital is required to further ensure that the Investment Firm maintains a sound financial position.</p> <p>During offsite supervision work Investment Firms which capital levels approaching the thresholds outlined in Article 92 of the CRR are requested to provide the MFSA with contingency plan/s and any early warning mechanisms that the respective Investment Firm has in place.</p>
050	<p><b>Overall SREP assessment and supervisory measures</b> (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<sup>(5)</sup>.</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<sup>(6)</sup>.</p>	<p>The overall SREP evaluation incorporates a holistic view of the Investment Firms in that, both the onsite and offsite information is taken into consideration. This approach provides the MFSA with a better understanding of each Firm and the corresponding risks, allowing it to monitor risks on a case-by-case basis.</p> <p>The MFSA may consider supervisory measures to rectify or mitigate against deficiencies in controls and/or risk management that an Investment Firm is exposed to when serious regulatory issues are identified within the SREP assessment. This would be communication to the Investment Firm in writing.</p> <p>Supervisory measures can be both quantitative through, amongst others, the imposition of additional capital and liquidity requirements, and qualitative nature, whereby a risk mitigation programme and/ or enhanced governance is imposed on the respective Investment Firm. When taking regulatory action a due process is followed.</p>

<sup>(1)</sup>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.

<sup>(2)</sup>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.

<sup>(3)</sup>Including working tools e.g. onsite inspections and offsite examinations, qualitative and quantitative criteria, statistical data used in the assessments. Hyperlinks to any guidance on the website are recommended.

<sup>(4)</sup>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.

<sup>(5)</sup>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.

<sup>(6)</sup>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).