

27th June 2019

Circular to Credit Institutions on the issuance of a new Banking Rule

The Authority is hereby issuing a new Banking Rule BR/20 on "Recovery Plans for Credit Institutions Authorised under the Banking Act (Cap. 371) (hereinafter the "Rule").

This new Rule provides guidance to credit institutions and groups in relation to the range of scenarios to be used in recovery plans, the minimum list of qualitative and quantitative recovery plan indicators, the coverage of entities in group recovery plans and provisions dealing with simplified obligations in relation to recovery plans.

The first part of the Rule implements the provisions of the European Banking Authority (hereunder the 'EBA') Guidelines on the range of scenarios to be used in recovery plans (EBA/GL/2014/06) which specifies the range of scenarios of severe macroeconomic and financial distress which shall be considered by credit institutions to test the effectiveness of recovery options and the adequacy of the indicators contained in their recovery plans in terms of the Recovery and Resolution Regulations (Subsidiary Legislation 330.09) (hereunder the 'Regulations').

The second part of the Rule implements the provisions of the EBA Guidelines on the minimum list of qualitative and quantitative recovery plan indicators (EBA-GL-2015-02) which provides credit institutions with a set of indicators to identify circumstances which may lead to a significant deterioration in their financial position in pursuance of the Regulations. Also included in relation to this Part are Annex I, which includes a list of categories of recovery plan indicators and Annex II, which specifies the minimum list of recovery plan indicators that should be included under the rebuttable presumption as explained therein. In addition, an Annex III is included which provides an additional, non-exhaustive list of recovery plan indicators provided for illustration purposes.

Furthermore, the third part of the Rule takes into consideration the EBA Recommendation on the coverage of entities in a group recovery plan (EBA/Rec/2017/02) which provides for the requirements of group recovery planning in light of part 1 and 2 of the Rule.

The fourth and last part deals with simplified obligations of recovery planning in light of the Commission Delegated Regulation (EU) 2019/348 of 25 October 2018 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria for assessing the impact of an institution's failure on financial markets, on other institutions and on funding conditions and the Final Report Draft regulatory

technical standards on simplified obligations under Article 4(6) of Directive 2014/59/EU (EBA/RTS/2017/11).

This new Rule shall come into force with immediate effect. Any queries in relation to the above should be directed to Banking Supervision (Policy Section) on bsupolicy@mfsa.com.mt.

This Circular shall not be construed as a replacement of the provisions of the new Banking Rule. The new Banking Rule shall prevail over this Circular in case of conflict.