

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/21 on “Remuneration Policies and Practices” (hereinafter the “Rule”).

This new Rule governs sound remuneration policies for all credit institutions’ staff and for staff whose professional activities have a material impact on a credit institution’s risk profile in compliance with the requirements set out in Articles 92 to 95 of Directive 2013/36/EU (CRD) on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms. In view of this, Annex 2E of BR/12 on ‘Remuneration Principles: Policy, Committee and Elements’ is being deleted and is being incorporated into this new Rule.

This Rule also adopts and implements the requirements specified in the *EBA Guidelines on Sound Remuneration Policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Articles 450 of the Regulation (EU) No 575/2013 (EBA/GL/2015/22)* as well as providing guidance on disclosures under Article 96 of Directive 2013/36/EU as transposed into paragraph 32 of BR/07.

The last part of this Rule governs the remuneration policies and practices related to the sale and provision of retail banking products and services implementing the *EBA Guidelines on Remuneration Policies and Practices related to the Sale and Provision of Retail Banking Products and Services (EBA/GL/2016/06)* which mainly specify the requirements for the design and implementation of remuneration policies and practices, in relation to the offering or provision of banking products and services to consumers by credit institutions, with a view to protecting consumers from undesirable detriment arising from the remuneration of sales staff.

It should be noted that, given the importance of an institution having sound remuneration policies, this Rule is to be incorporated in the internal governance framework of a credit institution where the credit institution has in place a Board approved structure regarding its policies for the remuneration and compensation of its management and staff members. The absence of a coherent and adequate remuneration policy generates potential risks for a credit institution that need to be adequately analysed and contained.

The principles adopted by this new Rule are to be also applied by credit institutions at group, parent company and subsidiary levels as applicable.

This new Rule also includes an Annex, Annex 1, wherein the '*Guidelines on the Applicable Notional Discount Rate for Variable Remuneration*' (EBA/GL/2014/01) are being implemented for the purpose of calculating the ratio between the variable and fixed component of the total remuneration awarded for service provided or performance as from 2014. This Annex governs mainly the principles of the discount rate of a maximum of 25% of the variable remuneration as paid in instruments that are deferred for a period of not less than five years.

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 and the new Annex. The new Banking Rule and Annex shall prevail over this Circular in case of conflict.