



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

MFSA MALTA
FINANCIAL
SERVICES
AUTHORITY

STATEMENT OF DECISION ON THE IDENTIFICATION OF OTHER
SYSTEMICALLY IMPORTANT INSTITUTIONS AND THE RELATED
CAPITAL BUFFER CALIBRATION

1. Background

The other systemically important institutions (O-SIIs) capital buffer is a macro-prudential tool legally embedded in the CRD/CRR framework which, in turn, has been domestically transposed in the Central Bank of Malta Directive No. 11¹ and Malta Financial Services Authority Banking Rule 15². The O-SII buffer consists of a capital surcharge which is applied to institutions that, due to their systemic importance are more likely to create risks to financial stability arising from misaligned incentives and moral hazard. Whilst maximizing private benefits through rational decisions, these institutions may bring negative externalities into the financial system and contribute to market distortions. This additional capital buffer is applied to domestic systemically important institutions to enhance their resilience by increasing their loss absorbing capacity, thereby ensuring that these institutions pose reduced risk to the domestic economy in the form of externalities.

Pursuant to LN 29 of 2014 (S.L.204.06), the Central Bank of Malta and the Malta Financial Services Authority (hereinafter referred to as ‘the Authorities’) developed a methodology in 2016 for the identification of O-SIIs and the related capital calibration. During 2019, the Authorities decided to revise and update the 2016 O-SII Methodology with the aim to better reflect the developments in the domestic financial sector and to further align the domestic O-SII methodology with the EBA Guidelines.^{3,4}

2. Statement of Decision

Based on the 2020 O-SII identification exercise, the same four credit institutions identified as O-SIIs during last year’s iteration have been re-confirmed as O-SIIs. The table below lists these institutions together with their applicable capital buffer rates. These credit institutions were contacted bilaterally and provided with more details on the results of the methodology.

Table 1: Designated O-SIIs and applicable capital buffer rates

Credit Institution	Buffer rate
Bank of Valletta Group (BOV)	2.0%
HSBC Bank Malta plc (HSBC)	1.5%
MDB Group Ltd (MED)	1.0%
APS Bank plc (APS)	0.25%

¹ [Directive No. 11 – Macro-prudential Policy](#)

² [MFSA Banking Rule 15 available at: https://www.mfsa.mt/wp-content/uploads/2019/02/Banking-Rule-15.pdf](https://www.mfsa.mt/wp-content/uploads/2019/02/Banking-Rule-15.pdf)

³ Criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs) [https://eba.europa.eu/sites/default/documents/files/documents/10180/930752/964fa8c7-6f7c-431a-8c34-82d42d112d91/EBA-GL-2014-10%20\(Guidelines%20on%20O-SIIs%20Assessment\).pdf](https://eba.europa.eu/sites/default/documents/files/documents/10180/930752/964fa8c7-6f7c-431a-8c34-82d42d112d91/EBA-GL-2014-10%20(Guidelines%20on%20O-SIIs%20Assessment).pdf).

⁴ CBM-MFSA Policy Document on the revised methodology for the identification of other systemically important institutions (O-SIIs) and the related capital buffer calibration’: <https://www.centralbankmalta.org/systemically-important-institutions>; <https://www.mfsa.mt/wp-content/uploads/2020/01/O-SII-revised-methodology-2020-Policy-Document.pdf>

The repercussions that surround the COVID-19 pandemic, have highlighted the need for further considerations on the phasing-in arrangements. The Authorities have decided to postpone the phasing-in arrangements for institutions currently subject to transitory provisions; and to credit institutions registering an increase in their buffer rate stemming from the 2020 O-SII identification exercise.

With regards to APS Bank plc, which has been designated as an O-SII for the first time in 2019 and is currently subject to phasing-in provisions, the bank shall continue to maintain its level of O-SII buffer for 2021 at the same buffer level as 2020. APS Bank will resume its phasing-in provisions as from 1 January 2022 until it reaches the fully-loaded O-SII buffer rate on 1 January 2024 as outlined in table 2 below.

Table 2: Transitory provisions for the build-up of O-SII buffer for APS Bank plc

Year	2020	2021	2022	2023	2024
Applicable Buffer Rate	0.0625%	0.0625%	0.125%	0.1875%	0.25%

With respect to MDB Group Ltd., it is now subject to an O-SII buffer rate of 1.00%. The Group will however be required to maintain the 0.50% buffer rate applicable in 2020 also in 2021. The Group will then start phasing-in the additional 0.50% increase in its O-SII buffer rate over a four-year phasing-in period, starting from 1 January 2022 and ending on 1 January 2025 as per table 3 below.

Table 3: Transitory provisions for the build-up of O-SII buffer for MDB Group Ltd.

Year	2020	2021	2022	2023	2024	2025
Applicable Buffer Rate	0.50%	0.50%	0.625%	0.75%	0.875%	1.00%

Finally, those institutions which already hold a fully-loaded O-SII buffer rate (i.e. BOV and HSBC) and which have not registered any changes to their buffer rate as a result of this year's O-SII iteration will still be requested to meet their fully-loaded buffer rate during 2021. This decision is to come into force with immediate effect, with the capital buffer rates for designated O-SIIs being applicable as from the date of publication of this Statement of Decision.

12 February 2021