

4 November 2022

Circular to Less Significant Credit Institutions on the EBA Guidelines on Common Procedures and Methodologies for the Supervisory Review and Evaluation Process (SREP) and Supervisory Stress Testing

The Malta Financial Services Authority (the 'Authority') would like to bring to the attention of the Board of Directors of Less Significant Credit Institutions ('LSIs') the updated [EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process \(SREP\) and supervisory stress testing](#) (EBA/GL/2022/03) (the 'EBA Guidelines').

The EBA Guidelines cover the assessment of LSIs; all credit institutions licensed locally by the Authority which do not fall under the direct supervision of the European Central Bank ('ECB') and exclude third-country branches. The EBA Guidelines shall apply from 1st January 2023. They repeal the previous EBA Guidelines on the SREP assessment.¹

The EBA Guidelines provide the framework for the Authority to perform its assessment on the risk, viability, and sustainability of credit institutions through the SREP process, taking into account the principle of proportionality based on the systemic importance of credit institutions. The EBA Guidelines further outline the key elements for a suitable supervisory stress testing programme within the context of the SREP assessment.

Overall, the EBA Guidelines set out the following non-exhaustive list of requirements on the part of credit institutions which shall be assessed by the Authority during the SREP assessment:

- A transparent organisational structure with clear responsibilities and separation of risk-taking from risk management and control functions;
- Appropriate risk strategy, risk appetite and risk management framework;
- Appropriateness and functioning of the Board of Directors;

¹ These Guidelines repeal the EBA Guidelines issued 19 December 2014 (EBA/GL/2014/13) and the amending Guidelines issued on 19 July 2018 (EBA/GL/2018/03).

- Sound, effective and comprehensive ICAAP and ILAAP in accordance with the relevant EBA Guidelines ([EBA/GL/2016/10](#));
- An appropriate stress testing programme with transparent lines of responsibility and procedures;
- Effective and reliable information and communication technologies;
- A level of own funds that meet the Overall Capital Requirement (OCR) and the Overall Leverage Ratio Requirement (OLRR). Furthermore, LSIs are expected to operate above the P2G as from 1st January 2023 as outlined in a recently published [MFSA Circular](#);
- Appropriate monitoring and reporting of the risks to capital, liquidity and funding. Furthermore, credit institutions shall have plausible and credible capital and liquidity contingency plans;
- Adequate counterbalancing capacity and liquidity buffers.

Any further updates with regard to the EBA Guidelines shall be communicated accordingly.

We take the opportunity to remind you that the Board of Directors is responsible for ensuring compliance with applicable laws and regulations and to remain vigilant for any updates thereof.

Any queries in relation to the above should be directed to Banking Supervision (Policy and Legal) on bsupolicy@mfsa.mt.