

# Consultation on Supervisory Reporting by Foreign Branches

Consultation on Supervisory Reporting submitted to the MFSA by EU Branches and Third-Country Branches Established in Malta

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NOTE: The documents circulated by the MFSA for the purpose of consultation consist of proposals which are not binding and are subject to change and revisions following representations received from stakeholders.

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## 1. Introduction

In 2014, European Union ('EU') member states moved towards the application of a harmonised supervisory reporting framework for credit institutions, through the Implementing Technical Standards ('ITS') on Supervisory Reporting of Credit Institutions (Regulation (EU) No 680/2014, later repealed by Regulation (EU) No 451/2021). This is more commonly known as the FINREP/COREP framework. At the time, the Authority had leveraged on this newly set up reporting framework and applied similar reporting requirements for branches established in Malta of foreign credit institutions, hereinafter referred to as 'foreign branches'. This approach was aimed at having standardised data available for both credit institutions and foreign branches - based on same requirements, underlying concepts and definitions.

Since then, the FINREP/COREP framework has evolved substantially, increasing data requirements for all banks, including foreign branches. With the aim of adopting a proportionate approach to regulatory reporting, the Authority has carried out an assessment and identified scope in proposing changes to the periodic reporting requirements as currently requested from these branches.

One is to note that regardless of this public consultation and representations received through it, **the Authority emphasises that whilst certain periodic reporting requirements may be reduced and/or removed, the Authority reserves the right to request and/or add back any reporting requirements in the future, either periodic or ad-hoc, as it may deem fit and necessary. For this reason, foreign branches shall maintain the capability of extracting, collating and submitting data to the Authority, as may be requested.**

## 2. Objective and Scope

This consultation is aimed at gathering feedback from the industry on several proposals targeting reporting requirements and technical fixes. The proposals are first and foremost aimed at streamlining and reducing the reporting burden and costs on foreign branches, without losing valuable and essential information for data users. Secondly, the proposed reduced reporting requirements are also envisaged to support and apply better focus on data quality, for the entities, the Authority, and other data users alike. Lastly, a set of technical fixes are being proposed, aimed at streamlining and enhancing the reporting and data quality processes.

The entities in-scope of this public consultation include:

**i. Credit institutions with freedom of right to establishment in Malta**

For the purpose of this consultation, branches of these institutions are referred to as 'EU branches';

**ii. Credit institutions licensed to transact the business of banking in terms of article 5(1) of the Banking Act through the establishment of a branch in Malta and authorised to carry out the business of banking in/from Malta**

For the purpose of this consultation, branches of these institutions are referred to as 'third-country branches'.

In terms of this consultation, in-scope entities are collectively referred to as 'foreign branches'.

One is to note that this consultation document includes proposals on reporting requirements emanating from the FINREP/COREP framework and related to the above-mentioned licensed and/or permitted activities. Any other reporting requirements on the in-scope entities, including those emanating from other licences and/or permissions as granted by the Authority, are not affected by this consultation.

### 3. Relevant Factors

In assessing the supervisory reporting requirements for foreign branches, the Authority considered a number of elements:

**a. Reporting Requirements Emanating from EU Legislation/Regulation/Guidelines**

In this context, any such reporting requirements shall be maintained.

**b. Data User Needs**

In assessing the requirements, the Authority gathered feedback from relevant data users to ensure stakeholders' data needs are met.

**c. Banking Package CRD6/CRR3**

The CRD6/CRR3 banking package proposes harmonised treatment of third-country branches across the EU through a set of authorisation and supervision rules. The proposal includes a European Banking Authority ('EBA') mandate to develop Implementing Technical Standards on Supervisory Reporting by third-country branches. The banking package is currently planned to apply as from 1 January 2025, making the potential application of such harmonised reporting requirements soon

thereafter. It is understood that once such requirements are in place, if implemented, may potentially be considered as the main supervisory reporting framework for third-country branches, possibly superseding any reporting requirements as set by the Authority. However, since the CRD6/CRR3 text is not finalised yet, details on any future requirements are still considered unknown at this stage.

## 4. Reporting Requirements Proposals

### Proposal 1: Reduce FINREP Reporting Requirements

The current FINREP reporting requirements for foreign branches consist of the entire FINREP framework. As per the ITS on Supervisory Reporting<sup>1</sup>, this includes a total of 87 templates. Whilst financial information is considered essential to data users, specific detailed breakdowns in select FINREP templates may be considered too cumbersome, without adding real value to an assessment, being of supervisory nature or another. In addition, extensive financial information is also available to data users through the submission of the BR/06 framework (also known as 'MFI'). These two frameworks make the amount of financial information being requested to foreign branches quite significant.

The proposal seeks to **reduce the reporting requirements under the FINREP framework to 30 templates**. The proposed reporting requirements aim to maintain the collection of data on key financial information, keeping the same template-level frequency, status and thresholds as currently in place. In case of changes to these, emanating from developments in the EBA supervisory reporting framework, an assessment will be undertaken to determine the potential changes to template-level applicability for foreign branches.

Full details on which templates are proposed to be kept is found in Annex I.

Q1

**Do you agree with Proposal 1 to reduce the reporting requirements under the FINREP framework from 87 to 30 templates for all foreign branches?**

### Proposal 2: Remove Reporting Requirements on Asset Encumbrance

The current asset encumbrance reporting requirements include a total of nine templates, each with their own frequency, threshold-applicability and/or activity-dependency, as stipulated in the ITS on Supervisory Reporting<sup>1</sup>. Asset encumbrance may be considered of

<sup>1</sup> Commission Implementing Regulation (EU) No 2021/451

little relevance in assessing and supervising foreign branches, mostly due to the nature and group structure of the entities having large support from the respective head office. The proposal seeks to **remove entirely periodic reporting on asset encumbrance**.

In the event that a new third-country branch is established in Malta prior to the implementation and application of the CRD6/CRR3 banking package, an assessment may be required to determine whether asset encumbrance is particularly relevant based on the specific business model. Subsequently, reporting on asset encumbrance may be deemed essential.

One is to note that the intention to reduce the reporting requirements on asset encumbrance to five templates, as applicable from June 2023 reporting reference date, remains in place unless and until this proposal is implemented. This initiative is aimed to enhance proportionality measures as it aligns foreign branches' reporting requirements to those for small and non-complex institutions, as defined in Article 4(1)(145) of CRR<sup>2</sup>.

Annex II outlines the current asset encumbrance reporting requirements and those planned as from June 2023.

Q2

**Do you agree with Proposal 2 to remove the reporting requirements on asset encumbrance for all foreign branches?**

### Proposal 3: Remove Reporting Requirements on Immovable Property Losses for Third-Country Branches

Reporting on Immovable Property Losses consists of one template. This reporting may be considered of minimal relevance for third-country branches, mostly due to the nature and group structure of such entities which would have considerable support from their respective head offices. The proposal seeks to **remove entirely periodic reporting on immovable property losses for third-country branches**.

In the event of a new third-country branch being established in Malta prior to the implementation and application of the CRD6/CRR3 banking package, an assessment may be needed to determine whether immovable property losses is particularly relevant based on the specific business model. Following such assessment, reporting on immovable property losses may be deemed essential.

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<sup>2</sup> Regulation (EU) No 575/2013

**Q3** Do you agree with Proposal 3 to remove the reporting requirements on immovable property losses for third-country branches?

**Q4** Specifically for third-country branches, do you generally agree with the principle of reducing the reporting burden already and prior to the finalisation and application of the CRD6/CRR3 banking package? Or do you prefer not to change third-country branches' reporting requirements at this stage, and wait for the implementation of the final harmonised requirements under the new banking package?

## 5. Technical Fixes Proposals

### Proposal 4: Enhancement to the Data Processing and Validation System

The proposal seeks to enhance the Authority's data processing and validation engine such that:

- a. Immoveable Property Losses reporting by EU branches is forwarded to the ECB. This reporting is a requirement established under Article 430a(2) of CRR<sup>3</sup>. As a result, such reporting is required to be submitted to the ECB.
- b. Foreign branches receive data quality validation reports. The data quality validation reports would be automatically generated and sent to the reporting agent upon reception of a submission. It would provide information and details on any emanating data quality issues.

### Proposal 5: Use of the Branch Legal Entity Identifier (LEI<sup>4</sup>) for Submission of Supervisory Reporting

The ability to accurately identify an entity through master data information<sup>5</sup> has become increasingly important. Given the fact that since a few years ago a branch which is established outside the country where its head office is located can acquire its own LEI, the proposal seeks to establish a requirement for foreign branches to submit supervisory reporting data using their respective unique branch LEI.

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<sup>3</sup> Regulation (EU) No 575/2013

<sup>4</sup> A 20-character, alpha-numeric code based on the ISO17442 standard which enables the clear and unique identification of legal entities participating in financial transactions.

<sup>5</sup> For the purpose of this document, master data information is referred to as a set of identification attributes for an entity.

The proposal is aligned in principle with the ESRB Recommendation on identifying legal entities<sup>6</sup>, and is in line with EBA and ECB practices in terms of accurate entity identification.

**Q5** Do you have any objections to the proposed technical fixes?

**Q6** Do you think that the proposed technical fixes may result in technical, completeness and/or data quality issues and/or impediments for the foreign branches?

## 6. Way Forward

Relevant industry stakeholders are invited to provide feedback to the consultation. Comments are to be addressed to the Banking Supervision function and submitted in writing to [Bankingdata@mfsa.mt](mailto:Bankingdata@mfsa.mt) by no later than **7 July 2023**. No feedback to the consultation document or the questions therein will be considered in favour of the proposal.

The Authority will review comments received through the consultation and issue a Feedback Statement. Thereafter, the MFSA will keep relevant stakeholders updated on the implementation of the proposals.

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<sup>6</sup> ESRB Recommendation ESRB/2020/12



## Annex I – Details of Proposal 1

Template code	Name of the template or of the group of templates	Proposed templates for foreign branches, marked with 'x'
	<b>PART 1 [QUARTERLY]</b>	
F 01.01	Balance Sheet Statement: assets	x
F 01.02	Balance Sheet Statement: liabilities	x
F 01.03	Balance Sheet Statement: equity	x
F 02.00	Statement of profit or loss	x
F 03.00	Statement of comprehensive income	
F 04.01	Breakdown of financial assets by instrument and by counterparty sector: financial assets held for trading	x
F 04.02.1	Breakdown of financial assets by instrument and by counterparty sector: non-trading financial assets mandatorily at fair value through profit or loss	x
F 04.02.2	Breakdown of financial assets by instrument and by counterparty sector: financial assets designated at fair value through profit or loss	x
F 04.03.1	Breakdown of financial assets by instrument and by counterparty sector: financial assets at fair value through other comprehensive income	x
F 04.04.1	Breakdown of financial assets by instrument and by counterparty sector: financial assets at amortised cost	x
F 04.05	Subordinated financial assets	x
F 05.01	Loans and advances other than held for trading, trading or held for sale assets by product	x
F 06.01	Breakdown of loans and advances other than held for trading, trading or held for sale assets to non-financial corporations by NACE codes	x
F 07.01	Financial assets subject to impairment that are past due	
F 08.01	Breakdown of financial liabilities by product and by counterparty sector	x
F 08.02	Subordinated financial liabilities	x
F 09.01.1	Off-balance sheet exposures: loan commitments, financial guarantees and other commitments given	x
F 09.02	Loan commitments, financial guarantees and other commitments received	x
F 10.00	Derivatives - Trading and economic hedges	x
F 11.01	Derivatives - Hedge accounting: Breakdown by type of risk and type of hedge	x
F 11.03	Non-derivative hedging instruments: Breakdown by accounting portfolio and type of hedge	
F 11.04	Hedged items in fair value hedges	
F 12.01	Movements in allowances and provisions for credit losses	x
F 12.02	Transfers between impairment stages (gross basis presentation)	x
F 13.01	Breakdown of collateral and guarantees by loans and advances other than held for trading	x
F 13.02.1	Collateral obtained by taking possession during the period [held at the reference date]	
F 13.03.1	Collateral obtained by taking possession accumulated	
F 14.00	Fair value hierarchy: financial instruments at fair value	x
F 15.00	Derecognition and financial liabilities associated with transferred financial assets	
F 16.01	Interest income and expenses by instrument and counterparty sector	
F 16.02	Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss by instrument	
F 16.03	Gains or losses on financial assets and liabilities held for trading and trading financial assets and trading financial liabilities by instrument	
F 16.04	Gains or losses on financial assets and liabilities held for trading and trading financial assets and trading financial liabilities by risk	
F 16.04.1	Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss by instrument	
F 16.05	Gains or losses on financial assets and liabilities designated at fair value through profit or loss by instrument	
F 16.06	Gains or losses from hedge accounting	
F 16.07	Impairment on non-financial assets	
F 16.08	Other administrative expenses	
F 17.01	Reconciliation between accounting and CRR scope of consolidation: Assets	
F 17.02	Reconciliation between accounting and CRR scope of consolidation: Off-balance sheet exposures - loan commitments, financial guarantees and other commitments given	
F 17.03	Reconciliation between accounting and CRR scope of consolidation: Liabilities	
F 18.00	Information on performing and non-performing exposures	x

F 18.01	Inflows and outflows of non-performing exposures - loans and advances by counterparty sector	
F 18.02	Commercial Real Estate (CRE) loans and additional information on loans secured by immovable property	X
F 19.00	Forborne exposures	X
	<b>PART 2 [QUARTERLY WITH THRESHOLD]</b>	
F 20.01	Geographical breakdown of assets by location of the activities	
F 20.02	Geographical breakdown of liabilities by location of the activities	
F 20.03	Geographical breakdown of main statement of profit or loss items by location of the activities	
F 20.04	Geographical breakdown of assets by residence of the counterparty	X
F 20.05	Geographical breakdown of off-balance sheet exposures by residence of the counterparty	X
F 20.06	Geographical breakdown of liabilities by residence of the counterparty	X
F 20.07.1	Geographical breakdown by residence of the counterparty of loans and advances other than held for trading to non-financial corporations by NACE codes	X
F 21.00	Tangible and intangible assets: assets subject to operating lease	
F 22.01	Fee and commission income and expenses by activity	
F 22.02	Assets involved in the services provided	
F 23.01	Loans and advances: Number of instruments	
F 23.02	Loans and advances: Additional information on gross carrying amounts	X
F 23.03	Loans and advances collateralised by immovable property: Breakdown by LTV ratios	
F 23.04	Loans and advances: Additional information on accumulated impairments and accumulated negative changes in fair value due to credit risk	
F 23.05	Loans and advances: Collateral received and financial guarantees received	
F 23.06	Loans and advances: Accumulated partial write-offs	
F 24.01	Loans and advances: Inflows and outflows of non-performing exposures	
F 24.02	Loans and advances: Flow of impairments and accumulated negative changes in fair value due to credit risk on non-performing exposures	
F 24.03	Loans and advances: Inflow of write-offs of non-performing exposures	
F 25.01	Collateral obtained by taking possession other than collateral classified as Property Plant and Equipment (PP&E): Inflows and Outflows	
F 25.02	Collateral obtained by taking possession other than collateral classified as Property Plant and Equipment (PP&E): Type of collateral obtained	
F 25.03	Collateral obtained by taking possession classified as Property Plant and Equipment (PP&E)	
F 26.00	Forbearance management and quality of forbearance	
	<b>PART 3 [SEMI-ANNUAL]</b>	
F 30.01	Interests in unconsolidated structured entities	
F 30.02	Breakdown of interests in unconsolidated structured entities by nature of the activities	
F 31.01	Related parties: amounts payable to and amounts receivable from	
F 31.02	Related parties: expenses and income generated by transactions with	
	<b>PART 4 [ANNUAL]</b>	
F 40.01	Group structure: "entity-by-entity"	
F 40.02	Group structure: "instrument-by-instrument"	
F 41.01	Fair value hierarchy: financial instruments at amortised cost	
F 41.02	Use of the Fair Value Option	
F 42.00	Tangible and intangible assets: carrying amount by measurement method	
F 43.00	Provisions	
F 44.01	Components of net defined benefit plan assets and liabilities	
F 44.02	Movements in defined benefit plan obligations	
F 44.03	Staff expenses by type of benefits	
F 44.04	Staff expenses by structure and category of staff	
F 45.01	Gains or losses on financial assets and liabilities designated at fair value through profit or loss by accounting portfolio	
F 45.02	Gains or losses on derecognition of non-financial assets other than held for sale and investments in subsidiaries, joint ventures and associates	
F 45.03	Other operating income and expenses	
F 46.00	Statement of changes in equity	
F 47.00	Average duration and recovery periods	

## Annex II – Details of Asset Encumbrance Reporting Requirements for Foreign Branches

Asset Encumbrance Templates			Template frequency	Requirement up to March 2023	Planned requirements as from June 2023
Part A – Encumbrance overview	F 32.01	Assets of the Reporting Institution	Quarterly	x	x
	F 32.02	Collateral Received	Quarterly	x	x
	F 32.03	Own Covered Bonds and Securitisations Issued and Not Yet Pledged	Quarterly	x	x
	F 32.04	Sources of Encumbrance	Quarterly	x	x
Part B – Maturity data	F 33.00	Maturity Data	Quarterly	x	
Part C – Contingency encumbrance	F 34.00	Contingent Encumbrance	Annually	x	
Part D – Covered bonds	F 35.00	Covered Bonds Issuance	Quarterly	x	x
Part E – Advanced data	F 36.01	Advanced Data. Part I	Semi-annually	x	
	F 36.02	Advanced Data. Part II	Semi-annually	x	