

22 June 2023

Circular to Credit Institutions on the Publication of New Banking Rules

The Malta Financial Services Authority (the 'Authority') is hereby issuing three (3) new Banking Rules addressed to credit institutions licensed under the Banking Act as follows:

- A. Banking Rule BR/28 on loan origination and monitoring by credit institutions licensed under the Banking Act
- B. Banking Rule BR/29 on the management of interest rate risk and credit spread risk arising from non-trading book activities
- C. Banking Rule BR/30 on establishing an intermediate EU parent undertaking

Furthermore, two (2) separate Annexes are being published under Banking Rule BR/29 as follows:

- i. Annex I on exposures associated with high risk
- ii. Annex II on the treatment of foreign exchange

A. Banking Rule BR/28 on Loan Origination and Monitoring by Credit Institutions Licensed under the Banking Act

This Rule is transposing the EBA Guidelines on loan origination and monitoring ([EBA/GL/2020/06](#)), the objective of which is, to improve credit institutions' practices and associated governance arrangements, processes and mechanisms in relation to credit granting, by ensuring that institutions have robust and prudent standards in place for credit risk taking, management and monitoring.

The requirements emanating from this Rule shall be applicable from **1 July 2024, except for paragraph 13 of the Rule** which is transposing Section 8 of the EBA Guidelines on the monitoring framework, for which credit institutions have until 1 January 2025 to collect the missing data.

B. Banking Rule BR/29 on the Management of Interest Rate Risk and Credit Spread Risk Arising from Non-Trading Book Activities

This Rule is transposing the EBA Guidelines issued on the basis of Article 84(6) of Directive 2013/36/EU (the 'CRD') specifying criteria for the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk, of institutions' non-trading book activities ([EBA/GL/2022/14](#)).

All requirements emanating from this Rule are applicable from 30 June 2023, except for those relating to the credit spread risk outlined in paragraphs 15 to 17 of the Rule which are applicable from 31 December 2023.

i. Annex I on Exposures Associated with High Risk

The purpose of this Annex is to implement the EBA Guidelines on the specification of types of exposures to be associated with high risk under Article 128(3) of Regulation (EU) No 575/2013 (the 'CRR') ([EBA/GL/2019/01](#)). The Guidelines specify the criteria for an exposure to be classified as an exposure associated with high risk and hence assigned a risk weight of 150% as per Article 112(K) of the CRR.

ii. Annex II on the Treatment of Foreign Exchange

The purpose of this Annex is to implement the EBA Guidelines on the treatment of structural foreign exchange under Article 352(2) of the CRR ([EBA/GL/2020/09](#)). These Guidelines provide the option to credit institutions to exclude from the calculation of the net open currency positions any position which the institution has taken in order to hedge against the adverse effect of the exchange rate, subject to permission by the Authority.

The aforementioned Annexes are both applicable with immediate effect.

C. Banking Rule BR/30 on Establishing an Intermediate EU Parent Undertaking

This Rule is transposing the EBA Guidelines on the monitoring of the threshold and other procedural aspects on the establishment of an intermediate EU parent undertaking ('IPU') under Article 11C of the Banking Act ([EBA/GL/2021/08](#)). This Rule applies to those credit institutions belong to third-country groups ('TCG') and to third-country branches, and covers the following aspects:

- The methodology to calculate and monitor the IPU threshold for the obligation to set up an IPU,
- The information exchange between institutions and branches of a TCG, and the Authority,
- The regulatory reporting requirements of the IPU monitoring,
- The cases for the application to establish two IPUs.

The reporting template is being included as Annex I to the Rule. All requirements within the Rule are applicable with immediate effect.

For further guidance, kindly refer to the EBA Guidelines that have been referenced in this Circular. Any queries in relation to the above should be directed to Banking Supervision (Policy and Legal) on bsupolicy@mfsa.mt.