

3 June 2024

Circular to Credit Institutions on the Update to Banking Rule BR/18 on the Risk-Based Method and the Compensation Contribution Method under the Depositor Compensation Scheme Regulations (S.L. 371.09)

The Malta Financial Services Authority is hereby issuing an amended Banking Rule BR/18 on the Risk-Based Method and the Compensation Contribution Method under the Depositor Compensation Scheme Regulations (S.L. 371.09) (the 'Rule').

The Rule, which was first published in 2016, has been amended to implement the European Banking Authority's (the 'EBA') revised Guidelines on methods for calculating contributions to deposit guarantee schemes (DGS) under Directive 2014/49/EU repealing and replacing Guidelines EBA/GL/2015/10 (EBA/GL/2023/02). The revised version of the Rule includes, but is not limited to:

- amendments to the core risk indicators, in particular:
 - the introduction of the 'Net Stable Funding ratio' (NSFR);
 - an update to the 'Risk Weighted Assets ratio' with the name of the numerator changing from 'Risk Weighted Assets' to 'Total Risk Exposure Amount'; and
 - the inversion of the ratio 'Unencumbered assets/Covered deposits' changing to Covered deposits/Unencumbered assets;
- amendments to the indicator weights – following an analysis by the EBA on determining which indicators are more likely to indicate an increased likelihood of a DGS intervention;
- amendments to the formula of the Individual Risk Score (IRS);
- amendments to the formula of the Aggregate Risk Weight (ARW) – from a logarithmic to an exponential formula.

Unless otherwise stated within the Rule, the requirements shall come into force on 3 July 2024. The second batch of contributions for 2024 shall be based on the current Rule and the updated rule shall become applicable from 1 January 2025.

This Circular shall not be construed as a replacement of the provisions of the revised Rule, and the revised Rule shall prevail in case of any conflict. Kindly direct any queries on the revised Rule to the Depositor Compensation Scheme on dcs_ics@compensationschemes.org.mt.