

16 June 2025

Investment Services Supervision

Dear Chief Executive Officer/Director,

Dear Compliance Officer,

Prudential Consolidation – Article 7 of the Investment Firms Regulation

You are receiving this letter as the Chief Executive Officer/Director, as the Compliance Officer and/or the designated person responsible for the Compliance Function (the "Compliance Officer") of an Investment Firm licensed by the Malta Financial Services Authority (referred to herein as the "MFSA" or the "Authority").

Credit institutions licensed to provide MiFID services are to disregard this letter.

BACKGROUND

With the application of the Investment Firms Regulation (EU) 2019/2033 of the European Parliament and of the Council of November 2019 ("IFR") on 26 June 2021, "union parent investment firms", "union parent investment holding companies" and "union parent mixed financial holding companies" as defined in the IFR, fall in scope of IFR Article 7, Prudential Consolidation. Consequently, the obligations laid down in Parts Two to Seven of the IFR shall apply to such structures, on the basis of their consolidated situation.

For ease of reference, kindly refer to the following definitions:

'Union parent investment firm' means an investment firm in a Member State which is part of an investment firm group and which has an investment firm or a financial institution as a subsidiary or which holds a participation in such an investment firm or financial institution, and which is not itself a subsidiary of another investment firm authorised in any Member State, or of an investment holding company or mixed financial holding company set up in any Member State;

'Union parent investment holding company' means an investment holding company in a Member State which is part of an investment firm group and which is not itself a subsidiary of an investment firm authorised in any Member State or of another investment holding company in any Member State; and



'Union parent mixed financial holding company' means a parent undertaking of an investment firm group which is a mixed financial holding company as defined in point (15) of Article 2 of Directive 2002/87/EC.

On 08 June 2021, prior to the application of the IFR, the Authority issued a [Circular](#) communicating the changes to be made to Part BI of the Investment Services Rules for Investment Services Providers ("the Rulebook"). Furthermore, on 17 January 2022, the Authority issued another [Circular](#) requesting all investment firm groups to provide the Authority with an assessment in relation to the applicability of IFR Article 7, Prudential Consolidation or IFR Article 8, The Group Capital Test.

On 20 November 2024, a [Consultation Document](#) on investment firms' prudential consolidation was published to communicate the applicability of prudential consolidation. Limited feedback was provided to the MFSA during the aforementioned engagements.

SCOPE OF PRUDENTIAL CONSOLIDATION

If either of the above definitions are met, the investment firm would be part of an investment firm group. However, it is important to note that structures which do not have either a union parent investment firm, or a union parent investment holding company, or a union parent mixed financial holding company, are fully out of scope of IFR Article 7.

Investment firm groups falling under the definition of IFR Article 7, are required to report on a prudential consolidation basis, as defined under this same Article. This means that investment firms, other than reporting on a solo basis, are also required to report information pertaining to the other companies within their group of companies, on a prudential consolidation basis.

The MFSA has identified the following non-exhaustive list of structures falling within the scope of IFR Article 7:



Structure 1



Structure 2

In both Structure 1 and 2, the holding company is defined as either a union parent investment firm, or a union parent investment holding company or a union parent mixed financial holding company, as explained above.

In structure 2, in contrast to structure 1, rather than having only the MFSA licensed investment firm as a subsidiary, it will be composed of only EU-licensed entities, except for credit institutions.

It should, however, be noted that in the case of firms falling within the scope of a derogation from prudential consolidation, the firms should consider IFR Article 8, The Group Capital Test. This will apply in the case of group structures which are deemed to be sufficiently simple, only if there are no significant risks to clients or to markets stemming from the investment firm group as a whole. This derogation would require an approval from the MFSA. On 01 January 2025, the European Banking Authority ('EBA') issued [Guidelines](#) on the application of the Group Capital Test for investment firm groups in accordance with IFR Article 8.

Therefore, if an investment firm group is in scope of IFR Article 7, Prudential Consolidation, the following scenarios may be in scope:



EXPECTATIONS ON LICENCE HOLDERS

Firms are to assess and decide if they fall under IFR Article 7, Prudential Consolidation and submit their assessment to the MFSA. An investment firm in scope of IFR Article 7, may wish to consider whether they are in scope of the derogation from IFR Article 7 i.e. IFR Article 8, The Group Capital Test, as explained above. In such cases, an additional assessment needs to be sent to the Authority for its consideration. However, investment firms falling below the thresholds of either Structure 1 or Structure 2, as noted below, may be exempted from IFR Article 7 and consequently also from IFR Article 8.

Assessments provided to the Authority should have an explanation on why the investment firm is in scope of IFR Article 7, and should the below thresholds apply, a confirmation as applicable. Should they deem that IFR Article 8 applies, firms are to provide an explanation, taking into consideration the quantitative and qualitative criteria in terms of the simplicity of the group structure and significance of risks to the clients and market, identified in the EBA's guidelines on the application of the Group Capital Test for investment firm groups. Annex I of the Guidelines contains a flowchart that outlines the structure of these guidelines, referencing the relevant criteria.

Moreover, all investment firms in scope of either IFR Article 7 or 8 would need to refer to the Authority's [Circular](#) dated 17 January 2022 and submit the required Master Data Collection excel file via the LH Portal, to complete the set-up the investment firm group within the EBA's reporting portal, if applicable.

In terms of IFR Article 7 thresholds, the following should be taken into account:

Investment firms having structures like Structure 1 above, are to carry out an assessment to determine whether the investment firm's sum of its total assets and its off-balance sheet items (excluding assets under management or assets under safekeeping arrangements), is less than the smaller of the following thresholds of Article 3(1) of the [Commission Delegated Regulation \(EU\) 2024/1771](#):

- (i) €10 million;
- (ii) 1% of the total amount of consolidated assets and consolidated off-balance sheet items of the Union parent undertaking, excluding that relevant entity's assets under management and assets and off-balance sheet items.

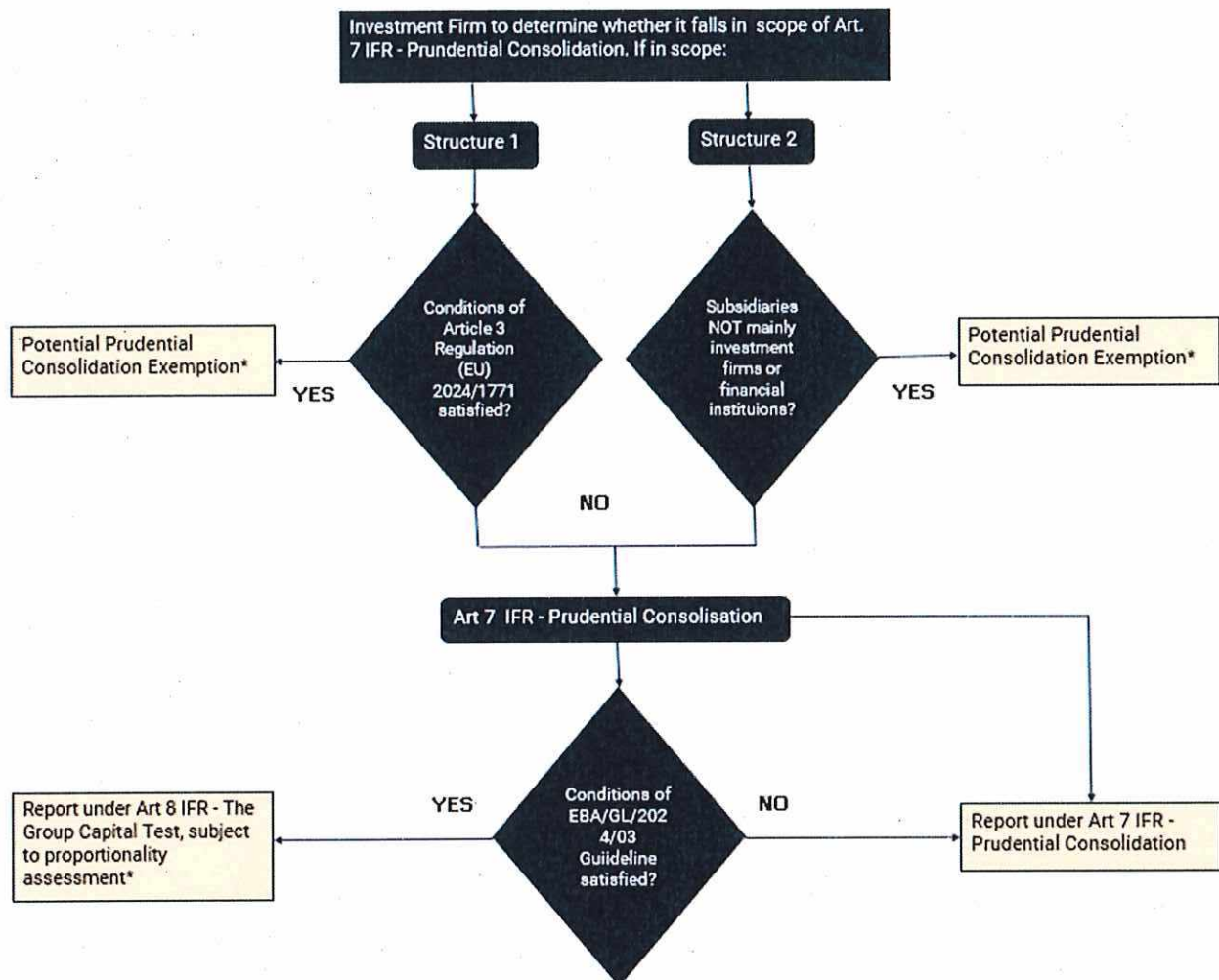
Furthermore, consideration is to be given to Article 3(3)(c) of the same regulation, in terms of the consolidation of the financial situation of the respective investment firm licensed by the Authority.

On the other hand, investment firms having structures like Structure 2 above, and whose definition of an "investment holding company" under IFR Article 4(1)(23) is in scope, are to carry out an assessment to determine whether its subsidiaries are mainly investment firms or financial institutions. As examples, the following metrics may be considered:

- (i) investment services activities revenue, vis-à-vis total revenue; and
- (ii) the number of employees dedicated to investment services activities, vis-à-vis total employees.

Subsidiaries will not be considered as '*mainly*' investment firms or financial institutions if the results of the respective metrics are less than 50%. Furthermore, such assessment is to be carried out in terms of both the individual investment firm and the consolidating entities in scope of IFR Article 7 Prudential Consolidation vis-à-vis all subsidiaries, i.e. both licensed and unlicensed entities within the EU.

For ease of reference, kindly refer to the following flowchart:



* Such exemptions and derogations are not automatic. The relevant assessments are to be provided to the Authority for its consideration.

REPORTING OBLIGATIONS

The EBA XBRL reporting obligations applicable under IFR Articles 7 and 8 as of 01 January 2025, from the Q1 2025 submission onwards shall include:

	IFR Article 7 - Prudential Consolidation		IFR Article 8 - The Group Capital Test	
	INDIVIDUAL LEVEL	GROUP LEVEL	INDIVIDUAL LEVEL	GROUP LEVEL
Class 2	Quarterly Annex I	Quarterly Annex I	Quarterly Annex I	Quarterly Annex VIII
Class 3	Annual Annex III	Annual Annex III	Annual Annex III	Quarterly Annex VIII

In this respect, once the Authority provides its feedback on the Company's assessment/s, group XBRL returns for previous periods i.e. from January 2025 onwards, would need to be submitted as a matter of priority, in order to ensure compliance with the applicable regulations.

CONCLUSION

Investment firms are requested to carry out a rigorous assessment, as applicable, to determine whether they fall (a) out of scope of IFR Article 7; (b) in scope of prudential consolidation; and/or (c) in scope of the group capital test. The firms are to provide the Authority the respective assessments, together with the Master Data excel file, the latter for (b) and (c) above, and reach out to the MFSA as a matter of priority in the case where a derogation/exemption is required.

Please note that it is the Company's responsibility to inform the Authority should there be any changes in relation to its assessment, at which point any derogations/exemptions granted, will need to be revisited. Moreover, the Authority will carry out ongoing assessments through its engagements and reserves the right to request the Company's assessment as its own discretion.

On a separate note, investment firms are reminded of the EBA-ESMA discussion paper in relation to the potential review of the Investment Firms Prudential Framework, as referred to in the Authority's [Circular](#) dated 12 June 2024. Should conclusions reached impact the above, the industry will be kept updated, accordingly.

Should you require any clarification on the above, please do not hesitate to contact the Authority's Investment Services Supervision Function on investmentfirms@mfsa.mt.

Yours sincerely,

Malta Financial Services Authority

Christopher P. Buttigieg
Chief Officer Supervision

Ian Meli
Head Investment Services Supervision

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