

1 October 2025

Banking Supervision Office

Tel: (356) 2144 1155

Dear Chief Executive Officer,

Re: Outcome-Based Supervision: Adequacy of Supervisory Reporting for Less Significant Institutions (LSIs)

Supervisory reporting is a cornerstone of the Malta Financial Services Authority (MFSA) work as a national competent authority. It provides the factual basis for prudential judgements, risk assessments and supervisory decisions, ensuring that the Authority can safeguard the stability and soundness of the banking sector. Its importance extends well beyond national supervision: the data submitted by Maltese institutions is relied upon by multiple stakeholders – including the European Central Bank, the European Banking Authority, the Central Bank of Malta, and other functions within the MFSA. This information underpins critical tasks such as system-wide risk monitoring, policy development, stress testing and the evaluation of financial stability. The accuracy, completeness, and timeliness of supervisory reporting are therefore essential not only for our effective oversight of individual institutions, but also for maintaining the integrity of the wider European supervisory framework and supporting confidence in the resilience of the financial system as a whole.

It is against this backdrop – where reliable reporting underpins both national and European supervisory outcomes – that the MFSA has embedded supervisory reporting adequacy into its outcomes-based approach. In 2024, the Authority introduced its Compliance Outcomes-Based Supervisory framework, which has since been extended to all financial services sectors through its 2025 Supervisory Priorities. As part of this supervisory framework, the Banking Supervision Function has completed a targeted review of supervisory reporting adequacy for a sample of Less Significant Institutions (LSIs). Conducted in Q2 2025, this exercise also forms part of the Supervisory Review and Evaluation Process (SREP) and establishes the adequacy of supervisory reporting as a key indicator of an institution's operational resilience, governance and regulatory alignment.

Objective and Scope

The review assessed the extent to which supervisory reporting submitted by the selected LSIs meets the standards of harmonisation, reliability and comparability required under EU and domestic regulations. The assessment focused on:

- **Punctuality:** Adherence to regulatory reporting deadlines and MFSA-set resubmission timelines;
- **Completeness:** Submission of all required templates, proper activation/deactivation of templates in line with the regulatory perimeter and adherence to technical specifications;
- **Accuracy:** Compliance with the European Banking Authority (EBA) validation rules, the European Central Bank's (ECB) Expert Group on Data Quality (EGDQ) checks, MFSA thematic data quality reviews and arising data quality issues; and
- **Collaboration and approach:** Responsiveness, quality of engagement and proactive remediation of data quality issues.

The methodology integrated quantitative metrics, including timeliness ratios, validation breaches and resubmission rates, which were assessed against benchmark thresholds, with qualitative insights based on supervisory judgement regarding cooperation, responsiveness and governance over reporting processes. This combination provided a holistic view of reporting adequacy.

The review was conducted in terms of EU regulations¹ implementing harmonised supervisory reporting requirements across EU banks, EBA Guidelines², Decisions and

¹ Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to supervisory reporting of institutions and Commission Implementing Regulation (EU) 2021/453 of 15 March 2021 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the specific reporting requirements for market risk, both superseded by Commission Implementing Regulation (EU) 2024/3117 of 29 November 2024 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to supervisory reporting of institutions.

² EBA Guidelines on the benchmarking exercises on remuneration practices, the gender pay gap and approved higher ratios under Directive 2013/36/EU and EBA Guidelines on the data collection exercises regarding high earners under Directive 2013/36/EU and under Directive (EU) 2019/2034 (EBA/GL/2022/08).

Filing Rules³ establishing reporting obligations and specifications, as well as local rules outlining reporting needs and standards, including Banking Rules BR/16, BR/24 and BR/31 issued under the Banking Act (Cap. 371).

Supervisory reporting obligations are not procedural but regulatory requirements, with data forming the basis of prudential assessments. Persistent deficiencies can therefore constitute breaches of binding regulations and impact the institution's overall risk profile.

Risk Weights and Scoring

To ensure proportionality and focus, each assessment objective was assigned a risk weight reflecting its impact on supervisory outcomes. **High-weighted areas** include timeliness of submissions, adherence to regulatory and MFSA deadlines, template-level completeness, and compliance with EBA validation rules. These directly influence the reliability of supervisory conclusions and are considered critical to regulatory compliance. **Medium-weighted objectives** include resubmission timeliness, application of entry/exit criteria, and the frequency and materiality of resubmissions, as they affect data integrity and the Authority's ability to form accurate risk assessments. **Low-weighted aspects** cover qualitative elements such as communication quality, collaboration and proactivity. While not regulatory breaches in themselves, they are essential for efficient supervision and early remediation of issues.

The use of risk weights ensures that the outcome ratings reflect both the severity and the prudential impact of any deficiencies identified.

Key Findings

Areas of Strong Performance

As a high risk-weighted objective, timeliness of supervisory reporting was assessed with particular scrutiny. The review found that the majority of LSIs demonstrated satisfactory performance in this area, consistently meeting regulatory remittance deadlines for original submissions. This is an indication of sound internal processes and escalation protocols, enabling institutions to comply without the need for supervisory intervention. However, in isolated cases, reliance on MFSA reminders to initiate or complete submissions was still observed, underscoring the need for enhanced internal ownership and proactive deadline management.

³ EBA Filing Rules, as amended from time to time, latest version [v5.6](#) published in May 2025.

Within the **medium risk-weighted objectives**, the majority of LSIs exhibited improving discipline around resubmissions, addressing MFSA requests within prescribed timeframes and demonstrating progress in aligning template activation and deactivation with their regulatory perimeter. This enhanced perimeter control reduced the need for supervisory intervention and contributed to more reliable datasets.

In the **low risk-weighted areas**, technical compliance emerged as a sectoral strength, with most LSIs adhering to prescribed formats, naming conventions and filing rules, ensuring compatibility with MFSA, ECB and EBA systems and minimising operational rejections. Institutions that engaged proactively, providing well-researched queries and maintaining transparent communication, also stood out for fostering constructive supervisory dialogue and demonstrating a stronger governance culture.

Areas of Concern

The review also highlighted material weaknesses requiring remediation by institutions. In the **high risk-weighted areas**, data accuracy and completeness emerged as the most significant shortcoming across the LSI sample. Approximately half of the institutions assessed exhibited recurring breaches of EBA validation rules, a high incidence of EGDQ failures and material data point omissions in key reporting modules such as Own Funds and Liquidity. These deficiencies reflect underlying weaknesses in pre-submission validation frameworks, misinterpretation of reporting requirements, and insufficient integration of quality controls in banks' data preparation and aggregation processes, including inadequate governance frameworks surrounding such processes. These elements are pivotal to ensure that the data is accurate, consistent and relevant.

For the **medium risk-weighted objectives**, while MFSA-set deadlines were generally met, approximately half of the institutions assessed required a high volume of Authority-initiated resubmissions. This pattern underscored insufficient "first-time-right" controls and an over-reliance on ex-post corrections, rather than robust pre-submission validation. Furthermore, the quality of resubmission justifications provided by institutions varied, with inconsistent rationale selection and generic explanations limiting traceability and delaying supervisory review.

In the **low risk-weighted areas**, engagement quality proved to be a differentiator. Although the majority of institutions were communicative and cooperative, in isolated cases the institutions adopted a reactive rather than proactive approach to supervisory communication, requiring repeated follow-ups and delaying the resolution of data quality issues. In addition, while in general the LSIs demonstrated a culture of

continuous improvement in lower-risk areas, approximately half of those assessed showed limited progress in strengthening aspects such as explanation detail and documentation, signalling a need to embed more consistent quality standards even in less material objectives.

These findings highlight a sector that, while demonstrating solid progress in core technical and procedural aspects of supervisory reporting, must now shift focus towards strengthening the **integrity and accuracy of the data itself**. Ensuring that reported information is not only timely and complete but also meaningful and reliable is essential for sound supervisory judgement.

Supervisory Expectations

The MFSA expects all institutions to **embed robust data governance frameworks** that establish clear accountability, oversight and escalation protocols over the supervisory reporting process. Institutions should **reinforce pre-submission controls** by implementing the necessary validation mechanisms to minimise breaches and prevent material omissions. Completeness assurance must be maintained by ensuring that the scope of reporting templates is strictly aligned with the institution's regulatory perimeter and that technical specifications are consistently adhered to. To preserve transparency and auditability, institutions are required to **maintain full traceability in their submissions**, accurately classifying resubmission reasons and providing comprehensive explanations for any amendments to facilitate supervisory analysis.

Furthermore, institutions are expected to **engage proactively with the Authority**, anticipating potential issues, escalating data risks without delay, and making effective use of the MFSA's technical guidance, thematic reviews and resources designed to support the supervisory reporting process. Active engagement with the Authority's communications remains critical to sustaining harmonised, reliable and comparable data across the banking sector.

Next Steps

The detailed bank-level findings of this review have been shared with the ongoing supervision teams, and will be incorporated into the upcoming SREP cycle, as deemed appropriate.

Conclusion

Supervisory reporting is not an administrative exercise but a fundamental regulatory need. It directly underpins prudential assessments, supervisory decisions, and the stability of the financial sector. The MFSA expects all institutions to address the areas identified in this review and embed robust supervisory reporting processes and escalation frameworks into their governance structures as well as adequate control environments, targeting high quality data and reducing the need for resubmissions.

Yours Sincerely,
Malta Financial Services Authority

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