17 November 2026

Investment Services Supervision

Dear Chief Executive Officer,

Dear Compliance Officer,

Recovery Plan reviews – Investment Firms Regulation and Investment Firms Directive

You are receiving this letter as the Management Body and/or Compliance Officer of an Investment Firm supervised by the Malta Financial Services Authority (referred to herein as the 'MFSA' or the 'Authority'). This letter applies specifically to those investment firms that fall under Directive 2014/59/EU, commonly referred to as the Bank Recovery and Resolution Directive ('BRRD').

For investment firms to fall in scope of the BRRD, the following criteria have to be met:

- An initial capital requirement of EUR 750,000; and
- Deal on own account; and/or
- Offer underwriting of financial instruments and/or placing of financial instrument on a firm commitment basis as referred to in Section A of Annex I to Directive 2014/65/EU ('MiFID').

BACKGROUND

The BRRD lays down a comprehensive EU-wide framework for managing the recovery and resolution of credit institutions, investment firms, and related entities. Its primary aim is to ensure financial stability by enabling authorities to intervene early and effectively in cases of institutional distress, ensuring financial stability, and limiting the use of public funds. Among its key provisions, the directive mandates that competent authorities evaluate recovery plans prepared by these entities, ensuring they are robust and capable of addressing potential financial crises. This letter applies to the preparation of Recovery planning within the framework of the BRRD.

As part of the MFSA's supervisory engagement, the Investment Services Supervision, has been carrying out annual reviews of the recovery plans submitted. This letter aims to provide additional guidance on the expectations by investment firms, when drawing up the recovery

plans, based on the findings noted during our thematic engagement reviews.

The main findings included the lack of structure of the recovery plan vis-à-vis the applicable Commission Delegated Regulation, the interpretation of core business lines and critical functions, and the interconnectedness of investment firms, both those forming part of a group of companies as well as the individual ones.

KEY FINDINGS

1. Format and structure

Observations

During our assessments, we observed that certain investment firms did not consistently adhere to the guidance set out in Commission Delegated Regulation (EU) 2016/1075 when preparing their recovery plan. In accordance with the Regulation, a comprehensive recovery plan shall include references to key components such as an executive summary, governance arrangements, strategic analysis, a communication and disclosure strategy, and a detailed description of preparatory measures.

Moreover, a general finding was that firms are still referring to the document as the 'Recovery and Resolution plan' when this should solely be referred to as the 'Recovery plan' considering that these are different in scope.

Expectations

When preparing the recovery plan, investment firms are advised to align both the structure and content with the provisions outlined in Commission Delegated Regulation (EU) 2016/1075. In this manner, all essential elements, including format and required information, are properly addressed, reducing the risk of omitting critical details from the plan. When reviewing the recovery plan, we would expect it to be structured in such a way to include the executive summary, governance arrangements, strategic analysis, a communication and disclosure strategy, and a detailed description of preparatory measures.

2. *Identification of core business lines and Interpretation of critical functions*

Observations

Several investment firms interpreted the meaning of critical functions incorrectly. The Recovery and Resolution Regulations (S.L. 330.09) define 'critical functions' as *"activities, services or operations the discontinuation of which is likely, in one or more Member States, to lead to the disruption of services that are essential to the real economy or to disrupt financial stability due to the size, market share, and internal interconnectedness, complexity or cross-border activities of the institution or group, with particular regard to the substitutability of those activities, services or operations"*.

In addition, most of the investment firms failed to identify their core business lines in the recovery plan and did not provide an adequate assessment which would justify their conclusion that their services do not fall within the definition of a critical function.

Expectations

The European Banking Authority ('EBA') issued technical advice in 2015 on how to determine core business lines and critical functions. The identification of critical functions is based on a two-step assessment methodology: (i) the impact analysis on financial stability and the real economy, and (ii) the substitutability analysis. Investments firms are required to consider the EBA technical advice when identifying core business lines and critical functions and to explain the process and the results of the assessment in the recovery plan.

3. *Recovery scenarios and recovery options*

Observations

The EBA Guidelines on recovery plan scenarios provide that *"given that the aim of a recovery plan is to prove the capacity to restore the viability of an institution, these scenarios should be designed as 'near-default' situations, i.e. they should bring an institution close to failure but no further"*.

During our reviews, we encountered situations where the scenarios considered by the Company did not assume that the investment firm was reaching near-default situations, nor instances where the Company was not in line with its regulatory requirements.

Moreover, in several recovery plans reviewed, the primary emphasis was placed on risk management measures and procedures. While important, these are distinct and different from recovery measures, which are specifically designed to restore the financial viability of the investment firm in times of severe stress or disruption.

Expectations

Investment firms should carefully evaluate their recovery options to ensure alignment with updated recovery scenarios that realistically reflect near-default conditions. Where scenarios provided do not meet this threshold, firms shall revise their recovery plans accordingly. By way of example, if an investment firm is part of a group of companies and experiences a shortfall in its own funds requirement, the recovery plan should clearly explain if the parent company will intervene to rectify the situation. If not part of a group, one recovery option might be a capital injection from the shareholder/s. In both cases, the recovery plan should outline if such options are financially viable, credible and feasible.

4. Reference to outdated regulatory frameworks

Finding

Some of the recovery plans we reviewed continue to refer to the Capital Requirements Regulation (CRR) and outdated investment firm classifications that were applicable prior to the implementation of the Investment Firms Regulation and Directive.

Requirement

The IFR and IFD entered into force in June 2021. The recovery plans must always refer to the latest regulatory framework, including the classes1 of the investment firms, as per IFR and IFD, rather than the previous MFSA categories. If it is approved by the Board of Directors it indicates that they are not reviewing the recovery plan in detail.

[1] Please refer to the definition of Article 12 of Regulation (EU) 2019/2033 and this MFSA Circular

5. Interconnectedness and dependability

Observations

Our assessments revealed that recovery plans did not consistently account for interconnected dependencies, such as reliance on specific service providers. For instance, in the case of online brokers, investment firms are usually dependent on third-party IT service providers. Also, the Company's exposure to the banks it engages with, was not always considered or featured in its recovery plan. Additionally, if the Company is part of a group, it should evaluate intra-group dependencies and its reliance on liquidity providers, legal advisors, or outsourcing partners essential to its operations which can be both internal and external.

Expectations

In terms of interconnectedness, where applicable, recovery plans should include,:

a. All existing material intra-group exposures and funding relationships;
b. Material legal binding agreements between entities of a group, including collateral agreements;
c. Functions that are centralised in one legal entity and are important for the functioning of other legal entities; and
d. Supporting evidence of the group financial support.

Investment firms should ensure that recovery plans adequately map operational vulnerabilities, quantify potential impacts, and include measures capable of restoring functionality in the event of a failure of a third-party service provider, where relevant.

6. Integration and consistency

Observations

Some recovery plans provided generic data rather than forecasted figures when including the recovery plan indicators and triggering actions. By way of example, in the case of a stressed scenario where there was a breach of the minimum capital requirement, some of the recovery plans reviewed failed to outline the decision-making process involved to rectify the situation.

Expectations

Investment firms need to provide credible and realistic projections which are in line with the nature, business and size of the Company. The recovery plans need to include the value, the trigger and the recovery action needed to address the recovery plan scenarios. If necessary these should be discussed with the auditor.

Recovery plans should include clear escalation hierarchy under stress i.e. the roles of the Board and/or the management.

7. Approach to escalation

Observations

While recovery plans can include a traffic light approach to escalation, it needs to be clearly defined whether they can be activated quickly enough in an actual crisis. The recovery plan requires a step-by-step implementation timeline for each recovery action. In the absence of clear timeframes, some actions may take too long to be implemented, making the recovery ineffective.

Expectations

The recovery plan needs to provide enough clarification on how quickly each recovery option can be executed in practice, escalation timelines, as well as a workflow/escalation process for decision-making and responsibility assignment to ensure timely action.

8. Link between recovery plan indicators, stress scenarios, recovery options and return to business-as-usual ("BAU")

Observations

During the supervisory reviews of recovery plans, it has been noted that several investment firms did not present a sufficiently integrated framework linking stress scenarios, recovery plan indicators, recovery options, and the process for restoring BAU conditions.

The quantitative impact of idiosyncratic, market-wide, and combined stress events was often not sufficiently detailed to demonstrate how such scenarios would lead to the breach of the specific recovery plan indicators.

Furthermore, recovery plan indicators and their recovery thresholds were not consistently mapped to the scenarios in a manner that would allow for a timely escalation and activation of appropriate recovery options. In several cases, firms provided narrative descriptions of actions available but did not quantify the expected effects of such actions on capital, liquidity, profitability, or operational resilience. As a result, most recovery plans lacked the process to outline how the proposed measures would restore the firm to BAU following severe financial or operational stress.

It has also been observed that recovery plans frequently omitted structured tables or metrics illustrating:

a. the projected deterioration under each scenario
b. the corresponding recovery plan indicator breaches
c. the selection of recovery options based on those breaches, and
d. the projected post-recovery financial position and timelines for BAU restoration

The above reduces the practical usability of the recovery plan as an operational tool.

Expectations

Investment firms are expected to incorporate a structured and quantifiable framework that clearly links the defined stress scenarios with the relevant recovery plan indicators and the corresponding recovery actions. This framework is needed to understand how the firm will transition from a state of severe stress back to BAU scenario.

Accordingly, the recovery plan should include:

a. Scenario-to-indicator mapping:
Firms shall provide a detailed table demonstrating how each defined stress scenario affects key financial and operational metrics, and how these would lead to risk of not complying with the respective recovery plan indicators. The mapping must include projected values, indicator thresholds, expected timing of breaches, and the severity of deterioration.

b. Indicator-to-action linkage:
Upon identifying breached indicators, the plan should set out the recovery options to be activated, accompanied by quantified estimates of their expected effect. Each action should be presented with implementation timelines, responsible functions, dependencies, and an assessment of feasibility under the stressed conditions.

c. Quantified recovery capacity:
Investment firms are expected to provide numerical evidence indicating how each recovery option would contribute to restoring capital, liquidity, and overall viability.

d. BAU restoration pathway:
The recovery plan should include a clear, measurable trajectory from a situation of crisis to BAU, summarising the expected post-recovery financial position, operational adjustments, and monitoring arrangements. A dedicated table should illustrate the projected BAU restoration timeline, key milestones, and any residual risks.

9. Resolution plans

Observations

The preparation of the resolution plan and the resolution options do not fall under the responsibility of the investment firms. These fall under the responsibility of Resolution which has the competence to apply the resolution options and not the investment firm itself. Therefore, the resolution options should not be considered as part of the management actions and should be distinguished from the recovery options. The resolution tools will only be applied in situations where there are no other alternative private solutions/ recovery options to be applied and also if there is a positive public interest assessment, whereby the application of normal insolvency proceedings would not entirely preserve one or more of the underlying resolution objectives in regulation 32 of the Recovery and Resolution Regulations (RRR).

Expectations

Having regard to the fact that resolution plans are distinct from the recovery plans, investment firms are to update their recovery plan to exclude any such references.

10. Update and next steps

At present, Rule R1-1.11.5 of Part BI of the Investment Services Rules for Investment Services Providers states that *"Licence Holders which are subject to S.L. 330.09 shall submit to the Authority an original copy of the Recovery Plan by not later than 1 June of each year"*.

This rule will be amended such that investment firms falling within the scope of the BRRD will no longer be required to submit their recovery plan to the Authority on an annual basis. Following an assessment of the current reporting framework and acknowledging that recovery plans are intended to be maintained as live documents and updated as necessary, and in any event at least annually in accordance with the BRRD, firms will instead be required to provide an annual confirmation that the recovery plan has been reviewed and updated accordingly.

Notwithstanding the above, the Authority will retain full discretion to request a copy of the recovery plan at any time, whether as part of routine supervisory engagement, thematic reviews, onsite inspections, or any other supervisory activity it may undertake. Further information will be provided in due course.

11. Conclusion

The findings contained herein are being shared to highlight key observations, draw attention to common practices, and identify areas requiring further improvement within the investment services sector.

The above is without prejudice to any changes that the Authority may deem necessary including but not limited to the frequency of the submission of the recovery plan.

The Authority encourages investment firms to review this letter alongside other relevant guidance and rules, including but not limiting to the Regulations referred to herein. 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

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