

## **INVESTMENT SERVICES RULES FOR INVESTMENT SERVICES PROVIDERS**

### **PART B: STANDARD LICENCE CONDITIONS**

#### **Appendix 3**

#### **Consolidated Capital Resources Requirement and Guidance on the compilation of the automated COREP Return for Consolidations**

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*Note: This Appendix applies to Category 2 and Category 3 Investment Services Licence Holders which are subject to the CRD and the CRR and which are not credit institutions. Therefore, this Appendix does not apply to Category 1 Licence Holders and Investment Services Licence Holders which qualify as UCITS Fund Managers, Alternative Investment Fund Managers or Custodians.*

This Appendix:

- a. details the consolidated capital resources requirement;
- b. defines a Consolidated Group;
- c. lists the undertakings which form part of a Consolidated Group;
- d. provides examples of scenarios where Licence Holders may be categorised as forming part of a Consolidated Group.;
- e. explains: **[i]** the components of the consolidated capital resources requirement; and **[ii]** how the COREP Return for Consolidations, which Licence Holders forming part of a Consolidated Group are required to submit to the MFSA in terms of the Investment Services Rules, should be completed.

## 1.0 The Consolidated Capital Resources Requirement

- 1.1. In terms of SLC 7.66 of Part BI of the Investment Services Rules for Investment Services Providers, a Licence Holder which forms part of a Consolidated Group is required to ensure that the Consolidated Group at all times maintains consolidated own funds which are at least equal to the consolidated capital resources requirement. The consolidated own funds of the Licence Holder may not fall below the amount of initial capital required at the time of authorisation on a consolidated basis.

The MFSA considers consolidated supervision as complimentary to and not a substitute for supervision on an individual basis.

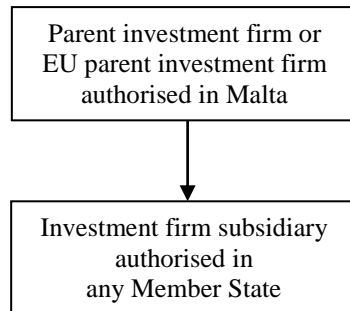
## 2.0 The Consolidated Group

- 2.1. A Consolidated Group shall exist where a group of entities is subject to Part One, Title II, Chapter 2 of the CRR. For further guidance on determining consolidation status, Licence Holders should refer to regulation 3 of the Banking Act and the Investment Services Act (Supervisory Consolidation Regulations), 2014.
- 2.2. Not all members of a group which is a Consolidated Group should be considered part of the Consolidated Group. Only the following types of entities within a group which is a Consolidated Group should be considered as members of the said Consolidated Group:
- i. Licence Holders and foreign investment services providers (being entities established outside Malta which carry out activities that are similar to licensable activities carried out by a Licence Holder);
  - ii. Financial institutions licensed in terms of the Financial Institutions Act 1994 and entities carrying out similar activities to those carried out under the Financial Institutions Act 1994 and which are licensed in other EU member states or in third countries;
  - iii. Credit institutions licensed in Malta or outside Malta;
  - iv. A financial holding company, which has the same meaning as that assigned to it in point (20) of Article 4(1) of the CRR;
  - v. A mixed financial holding company, which has the same meaning as that assigned to in point (21) of Article 4(1) of the CRR;
  - vi. A mixed activity holding company, which has the same meaning as that assigned to it in point (22) of Article 4(1) of the CRR;
  - vii. An ancillary services undertaking, which has the same meaning as that assigned to it in point (18) of Article 4(1) of the CRR; and

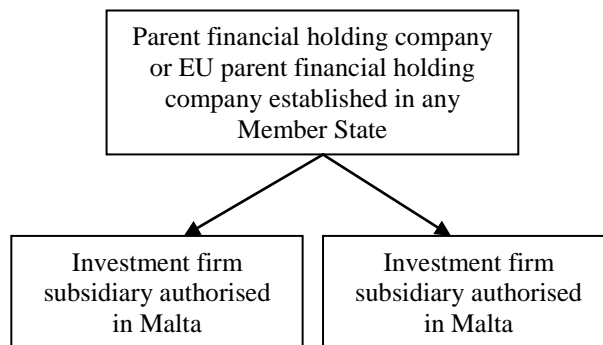
viii. An asset management company, which has the same meaning as that assigned to it in point (19) of Article 4(1) of the CRR.

### 3.0 Diagrams illustrating scenarios where the Licence Holder would be categorised as belonging to a Consolidated Group

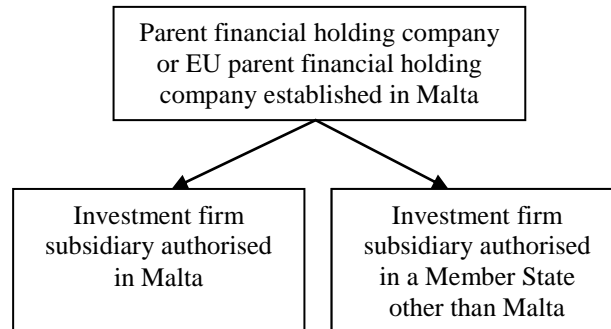
3.1. Example of Regulation 3(1)(a) of the Banking Act and the Investment Services Act Supervisory Consolidation Regulations, 2014.



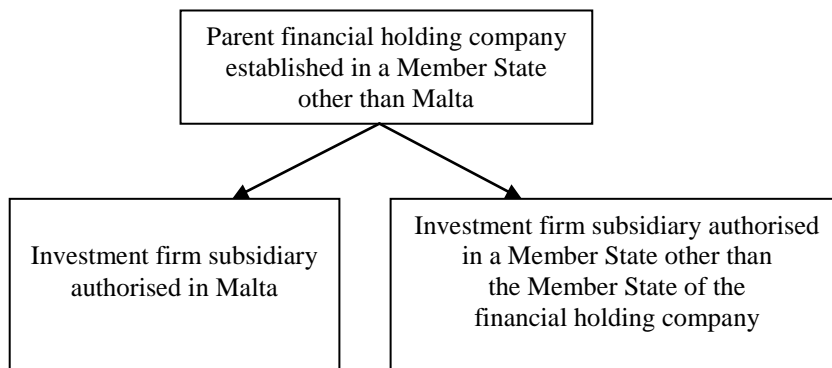
3.2. Example of Regulation 3(1)(b) of the Banking Act and the Investment Services Act Supervisory Consolidation Regulations, 2014.



3.3. Example of Regulation 3(1)(c) of the Banking Act and the Investment Services Act Supervisory Consolidation Regulations, 2014.



3.4. Example of Regulation 3(1)(e) of the Banking Act and the Investment Services Act Supervisory Consolidation Regulations, 2014.



**4.0 The Components of the Consolidated Capital Resources Requirement**

The components of the Consolidated Capital Resources Requirement vary depending on the category of the Licence Holder which forms part of the Consolidated Group. Where two or more Licence Holders holding a different category of licence form part of the same Consolidated Group, the Capital Resources Requirement of the Licence Holder with the highest category of licence, shall prevail. The following summarise the components of the Consolidated Capital Resources Requirement:

*A. Category 2 Licence Holders*

Category 2 Licence Holders shall at all times satisfy the following Consolidated Capital Resources Requirement:

- i. A Consolidated Common Equity Tier 1 capital ratio of 4.5%, which is calculated as follows:

Consolidated Common Equity Tier 1 capital

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The sum of the consolidated non-trading book business risk components, the consolidated trading book business risk components, the consolidated commodities instruments - risk component, the consolidated foreign exchange risk component, the consolidated settlement risk component, the consolidated credit valuation adjustment risk component and the consolidated fixed overheads requirement

- ii. A Consolidated Tier 1 capital ratio of 6%, which is calculated as follows:

Consolidated Tier 1 capital

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The sum of the consolidated non-trading book business risk components, the consolidated trading book business risk components, the consolidated commodities instruments - risk component, the consolidated foreign exchange risk component, the consolidated settlement risk component, the consolidated credit valuation adjustment risk component and the consolidated fixed overheads requirement

- iii. A Consolidated Total capital ratio of 8%.

Consolidated Own Funds

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The sum of the consolidated non-trading book business risk components, the consolidated trading book business risk components, the consolidated commodities instruments - risk component, the consolidated foreign exchange risk component, the consolidated settlement risk component, the consolidated credit valuation adjustment risk component and the consolidated fixed overheads requirement

*B. Category 3 – including Operators of MTFs*

Category 3 Licence Holders shall at all times satisfy the following consolidated Capital Resources Requirement:

- i. A Consolidated Common Equity Tier 1 capital ratio of 4.5%, which is calculated as follows:

Consolidated Common Equity Tier 1 capital

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The sum of the consolidated non-trading book business risk components, the consolidated trading book business risk components, the consolidated commodities instruments - risk component, the consolidated large exposures risk component, the consolidated foreign exchange risk component, the consolidated settlement risk component, the consolidated credit valuation adjustment risk component and the consolidated operational risk component

- ii. A Consolidated Tier 1 capital ratio of 6%, which is calculated as follows:

Consolidated Tier 1 capital

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The sum of the consolidated non-trading book business risk components, the consolidated trading book business risk components, the consolidated commodities instruments - risk component, the consolidated large exposures risk component, the consolidated foreign exchange risk component, the consolidated settlement risk component, the consolidated credit valuation adjustment risk component and the consolidated operational risk component

- iii. A Consolidated Total capital ratio of 8%.

Consolidated Own Funds

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The sum of the consolidated non-trading book business risk components, the consolidated trading book business risk components, the consolidated commodities instruments - risk component, the consolidated large exposures risk component, the consolidated foreign exchange risk component, the consolidated settlement risk component, the consolidated credit valuation adjustment risk component and the consolidated operational risk component

## 5.0 The automated Consolidated COREP Return

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### 5.1. Introduction

- a. This section provides detailed instructions on how to fill in the automated Consolidated COREP Return. It then provides an explanation of how Licence Holders are to complete a number of worksheets in the Return namely:

<b>Section 1 – Standard Templates</b>	<b>Section 2 – COREP Templates</b>	<b>Section 3 – Fixed Overhead Template</b>
Input Sheet	Capital Adequacy	Fixed Overhead Requirement
Income Statement	Group Solvency	
Balance Sheet Statement	Credit Risk	
Validation Check	Operational Risk	
Financial Details	Market Risk	
Representations	Large Exposures	
	Leverage	

### 5.2. Instructions for using the automated Consolidated COREP Return

- a. This section also provides guidance for Licence Holders when compiling the automated Interim Consolidated COREP Return (“ICCR”) and the automated Annual Consolidated COREP Return (“ACCR”).
- b. The Return is compiled via an MS Excel File. The file has been optimised to work on Microsoft Excel 2010. Some functions may not work if converted for use with other software or later version of Excel. This MS Excel file must be saved in the following format: Microsoft Excel Macro-Enabled Worksheet (.xlsm).
- c. To select a worksheet, go to “INDEX” sheet and click on the icon next to the required sheet.
- d. The worksheets are password protected.
- e. In instances where the cells are linked, only the values need to be inputted once.
- f. Subtotals are calculated automatically.
- g. A number of worksheets require manual intervention. The user will be prompted to execute a function or to input a value. Any computer prompted instructions are to be followed carefully.

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- h. Licence Holders are to provide additional details where required. This is required at the bottom of the “Income Statement and Balance Sheet Statement” sheets. It is preferable that entries do not exceed the space provided for this purpose.
- i. The compilation of the automated Consolidated COREP Return should start from the first worksheet (that is, the “COVER SHEET”). Details are to be inserted (as and where appropriate) starting from top and moving to the end of each worksheet.
- j. The following is an outline of all the applicable sheets:

Sheet	Sheet title	Applicable to
Input Sheet	Input Sheet	Category 2/3
Income Statement	Income Statement	Category 2/3
Balance Sheet	Balance Sheet	Category 2/3
Validation Check	Validation Check	Category 2/3
Financial Details	Financial Details	Category 2/3
Representations	Representations	Category 2/3
CA1	Own Funds	Category 2/3
CA2	Own Funds Requirement	Category 2/3
CA 3	Capital Ratios	Category 2/3
CA 4	Memorandum Items	Category 2/3
CA 5	Transitional Provisions	Category 2/3
GS	Group Solvency	Category 2/3
CRSA	Credit and Counterparty Credit Risk and Free Deliveries: Standardised Approach To Capital Requirements	Category 3
CRGB	Geographical Breakdown	Category 3
CR SETT	Settlement/Delivery Risk	Category 3
Operational Risk Working	Operational Risk Working	Category 3
OPR	Operational Risk	Category 3
MKR SA TDI	Market Risk for traded debt instruments in Traded Debt Instruments	Category 3
MKR SA EQU	Market Risk: Standardised Approach for Position Risk in Equities	Category 3
MKR SA FX Working	MKR SA FX Working	Category 2/3
MKR SA FX	Market Risk: Standardised Approaches for Foreign Exchange Risk	Category 3
MKR SA COM	MKR SA COM	Category 3
MKR IM	MKR IM	Category 3
CVA	Credit Value Adjustment Risk	Category 3
LE LIMITS – Large Exposures Limits	LE LIMITS – Large Exposures Limits	Category 3



LE – Large Exposures	LE	Category 3
Leverage	Leverage	Category 3
Fixed overhead	Fixed Overhead Requirement	Category 2

- k. Users should not key in “0” or “-” whenever a value is nil but should leave the cell empty.
- l. Returns should be submitted by their due date in electronic format by use of the FRE/D Interface accessed through the following link: <http://fredisu.mfsa.com.mt/>. The FRE/D Financial Institution Representative Instructions are available on the MFSA website. The Authority does not accept any liability for unauthorised access to returns submitted in electronic format.
- m. The automated Consolidated COREP Return is to be signed by means of a Digital Certificate. To obtain a personal Digital Certificate one should register for an e-ID issued by the Government of Malta Certification Authority by following the procedures as established on the myGov.mt web portal:  
[https://mygov.mt/portal/\(1aa4cwrit3rekrecwx1f13jb\)/webforms/howdoigetaccesstomygov.aspx#Register](https://mygov.mt/portal/(1aa4cwrit3rekrecwx1f13jb)/webforms/howdoigetaccesstomygov.aspx#Register)

### 5.3. The Cover Sheet



- a. All cells in items 1 to 11 which are highlighted in blue are to be completed.
- b. Item 1: Select document type – either Annual or Interim COREP Return – from the drop down list depending on the period for which the return is being compiled.

The image shows a screenshot of a web form. Item 1.0 is labeled 'Document Type:' and has a dropdown menu with two options: 'ANNUAL COREP RETURN' and 'INTERIM COREP RETURN'. Item 2.0 is labeled 'Name of Licence Holder' and has a text input field. A blue box highlights the dropdown menu, and a blue arrow points from this box to a separate box containing the text: 'Select Document type – either Interim COREP Return or Annual COREP Return'.

- c. Returns are to be prepared in the reporting currency of the Consolidated Group.
- d. **Item 5: Level of Application – For the purpose of completing the automated COREP Return for consolidations, the “Consolidated” option must be selected from the drop down list.**

- e. Irrespective of the reporting currency, the relevant Middle Exchange Rate converting EUR to the reporting currency is to be inserted in Item 9.
- f. Upon satisfactory completion of items 1 – 11, click on the button which leads directly to the “Index Sheet”

8.0.	Number of months covered by reporting period	
9.0.	Currency in which accounts are reported	
10.0.	Exchange rate as at end of reporting period converting the reporting currency to EURO	
11.0.	Accounting Framework	

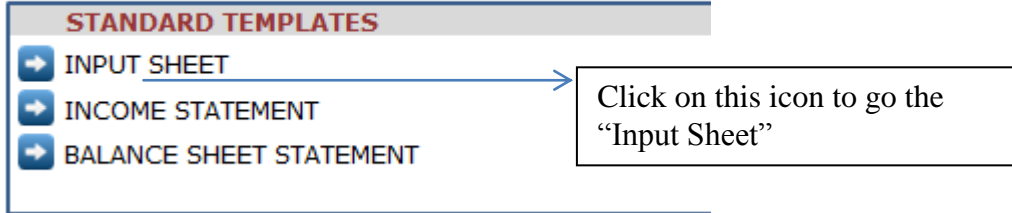
When this sheet is completed  
click here to go to Index page

#### 5.4. The Index sheet

- a. The Index sheet is mainly divided into three sections as follows:  
SECTION 1 – STANDARD TEMPLATES  
SECTION 2 – COREP TEMPLATES  
SECTION 3 – FIXED OVERHEAD TEMPLATE
- b. In order to access a specific sheet, the relative icon to the left of the sheet’s title must be selected.
- c. Sheets filled in either manually or by way of automation will be marked in (RED, BOLD & UNDERLINED) in the “INDEX SHEET”.

## 5.5. The Input Sheet

### **SECTION 1 - STANDARD TEMPLATES**



- a. Click on the icon on the left of the sheet's "title" to access the "INPUT SHEET"
- b. The input sheet has a similar structure to a Trial Balance. All amounts on the credit (mainly items of income and liabilities) are to have a negative figure, by inserting a 'sign' before the figure. On the other hand, all amounts on the debit (mainly assets and expenses) should be indicated as positive. If a negative amount is filled in a cell representing an asset, the program will prompt the Licence Holder to insert a positive amount. In general, the Licence Holder will not be allowed to insert a negative amount in a cell representing an asset or an expense. Similarly such Licence Holder will not be allowed to insert a positive amount in a cell representing an item of income or a liability. For convenience, some cells have an automated pop-up window explaining what must be inserted.
- c. The "INPUT SHEET" is mainly divided into six sections as follows:
  - i. Income
  - ii. Expenditure
  - iii. Assets
  - iv. Liabilities
  - v. Capital & Reserves
  - vi. Other

#### *Steps to be followed for the completion of certain items in the Input Sheet:*

- a. *Other Comprehensive Income*

If the Licence Holder is required to report an amount in "Fair value movements on Intangible assets" or "Gain/Loss on revaluation of property", then Item "a" or "c" in "Statement of Other Comprehensive Income" section must be filled in. Once the input cell has been filled in, a pop-up will appear, prompting the Licence Holder to qualify the item as a "P/L" or "OCI" item.

b. *Assets*

- i. If the Licence Holder requires reporting an amount in “Goodwill” then item (a) i) in the “Assets” section must be filled in. Once the input cell has been filled in, a pop-up will appear, prompting the Licence Holder to qualify the item as a “Goodwill item accounted for as intangible asset” or “Goodwill item included in the valuation of significant investments”. The amount will feature in the CA1 Template according to the selected category.
- ii. If the Licence Holder needs to report any “Amounts due from Group Companies” and/or “Amounts due from other connected persons”, the credit quality step of the central government in which the amount is due from must be specified. These items are considered as exposures to corporates which are unrated and thus shall be assigned the risk weight of exposures to the central government of the jurisdiction in which the corporate is established. A credit assessment of 1 to 5 and an unrated credit assessment will risk weight the amount at 100%, while a credit assessment of 6 will risk weight the amount at 150%.
- iii. “Trade Receivables” and “Other Receivables” must be classified according to the Exposure Type. The three exposure types available are “Exposures to Institutions”; “Exposures to Corporates”; and “Other Exposures”. If the reporting amount is classified as an “Exposures to Corporates”, these items are considered as unrated and thus shall be assigned the risk weight of exposures to the central government of the jurisdiction in which the corporate is established. A credit assessment of 1 to 5 and an unrated credit assessment will risk weight the amount at 100%, while a credit assessment of 6 will risk weight the amount at 150%.

c. *Liabilities*

If the Licence Holder needs to report any “Subordinated Loan as at 31/12/2013” and/or any “Subordinated Loan as from 01/01/2014”, the issue date and maturity date must be specified in the adjacent cells.

d. *Other*

- i. If the Licence Holder holds “assets/ liabilities denominated in a currency other than the reporting currency” then item “a” in Section 6 of the INPUT SHEET must be answered “Yes”. If the answer to the Question is “Yes” a pop-up will appear indicating “Please input the relevant exposure in MKR SA FX Working Sheet”. The MKR SA FX Working Sheet can be accessed through the Index Sheet.

- ii. If the Licence Holder holds “Investments in Own CET 1, AT1 or T2 Instruments” then item “d” in Section 6 of the INPUT SHEET must be answered “Yes”. If the answer to the Question is “Yes” a pop-up will appear prompting the Licence Holder to input the “Capital Type”, “Holding Type” and “Amount”. The amount will feature in the CA1 Template according to the selected “Capital Type”.
- iii. If the Licence Holder holds “Instruments of financial sector entities where the institution has a significant investment” and/or “exposures to any Securitisation Positions”, then item “e” and/or “o” of Section 6 of the INPUT SHEET is answered “Yes”. If the answer to the question is “Yes” a pop-up will appear indicating “Please Inform MFSA”. The MFSA will then guide the Licence Holder accordingly.
- iv. If the Licence Holder holds “Instruments of financial sector entities where the institution does not have a significant investment”, the amount must be specified in Item “f” of Section 6 of the INPUT SHEET. A pop-up will immediately appear prompting the Licence Holder to input the “Capital Type”. The amount will feature in the “CA1” Template according to the selected “Capital Type”.
- v. If the Licence Holder is “involved in any Credit Risk Mitigation Techniques” and/or is “subject to any Off-balance sheet exposures” then Question “l” and/or “m” in Section 6 of the INPUT SHEET must be answered “Yes”. If the answer to the Question is “Yes” a pop-up will appear indicating “Please Inform MFSA”. The MFSA will then guide the Licence Holder accordingly.
- vi. If the Licence Holder holds “exposures secured by mortgages on immovable property” then Question “n” in Section 6 of the INPUT SHEET must be answered “Yes”. If the answer to the Question is “Yes” a pop-up will appear indicating “Please input the relevant exposure in CR SA - Secured by Mortgages on Immovable Property”.

## 5.6. The Income Statement

- a. This sheet is fully automated except for Item 8.0.
- b. The space provided in item 8.0 (“Details of ‘Other ISA related revenue’ and/or any other details or comments”) is to be used to explain Item 5.0 (“Other ISA related revenue”).

## 5.7. *The Balance Sheet Statement*

- a. This sheet is fully automated except for item 8.0.
- b. The space provided in Item 8.0 (“Details of 'Amounts due to/ from other connected persons' and/or \*\*'Amounts due to/ from group Companies' and/or Any other details or comments:”) should provide explanations to Item 2.0 (f) (“Amounts due from group companies\*\*”) and item 2.0 (g) (“Amounts due from other connected persons\*”).

## 5.8. *COREP Structure*

- a. Overall the consolidated framework consists of 7 set of templates: **[i]** Capital Adequacy; **[ii]** Group Solvency; **[iii]** Credit Risk; **[iv]** Operational Risk; **[v]** Market Risk; **[vi]** Large Exposures Risk; and **[vii]** Leverage.

A description of these templates is provided in the following sections.

- b. Category 3 Licence Holders are required to complete all the COREP Templates that are included within the automated Consolidated COREP Return, as long as these are applicable to them, depending on the type of investment services activities that they provide. In addition, certain reporting templates are only required to be completed if they exceed the reporting thresholds on two consecutive reporting reference dates. Licence Holders should refer to Article 4 of EBA Final draft Implementing Technical Standards on supervisory reporting for the purpose of complying with the entry and exit criteria for reporting thresholds.
- c. Category 2 Licence Holders are only required to complete the Capital Adequacy Templates. Given that these templates contain certain information which require the calculation of the risk components and the fixed overhead requirement, Category 2 Licence Holders are required to complete the following sheets in addition to the Capital Adequacy Templates: **[i]** Input Sheet; **[ii]** Income Statement; **[iii]** Balance Sheet Statement; **[iv]** Financial Details; **[v]** Representations; **[vi]** the MKR SA FX Working (Foreign Exchange Working) Sheet; and **[vii]** Fixed Overhead Requirement. This will ensure the automatic calculation of the risk components and the fixed overhead calculation in the Capital Adequacy Templates.

## 5.9. Consolidated Own Funds

Consolidated Own Funds means the sum of Consolidated Tier 1 capital and Consolidated Tier 2 capital. Licence Holders should refer to Section 4.1 of Appendix 1B to these Rules for the meaning and the components of Tier 1 capital and Tier 2 capital.

For the purposes of the Consolidated Total Own Funds computation, the Licence Holder shall treat a Consolidated Group as a single institution, as provided in point (47) of article 4 (1) of the CRR, and shall determine the amount of consolidated own funds in accordance with Title II of Part Two of the CRR.

Provided that:

- i. Consolidated own funds that would qualify as consolidated reserves in accordance with national transposition measures for article 65 of Directive 2006/48/EC that do not qualify as Common Equity Tier 1 capital for any of the reasons specified in article 479 (1) shall qualify as consolidated Common Equity Tier 1 capital at the following applicable percentages:
  - a. 0% for the period from 1 January 2014 to 31 December 2014;
  - b. 0% for the period from 1 January 2015 to 31 December 2015;
  - c. 0% for the period from 1 January 2016 to 31 December 2016;
  - d. 0% for the period from 1 January 2017 to 31 December 2017.
- ii. the multiple of the percentage of: (a) subsidiary Tier 1 capital allowed under article 85 of the CRR in consolidated own funds; and (b) subsidiary own funds allowed under article 87 of the CRR in consolidated own funds shall be as follows for the purposes of article 480 (3) of the CRR, during the period 1 January 2014 to 31 December 2017:
  - a. 1 in the period from 1 January 2014 to 31 December 2014;
  - b. 1 in the period from 1 January 2015 to 31 December 2015;
  - c. 1 in the period from 1 January 2016 to 31 December 2016;
  - d. 1 in the period from 1 January 2017 to 31 December 2017.

### 5.9.1. *The Capital Adequacy – (CA) Templates*

- a. These templates mainly contain summary information about the consolidated own funds (numerator) and the consolidated own funds requirement (denominator) of the Licence Holder, resulting in the calculation of the capital adequacy ratio. They are divided into five sub-templates:
- b. *The CA1 Template* provides details about the Licence Holder’s consolidated Common Equity Tier 1 Capital (CET 1), consolidated Additional Tier 1 Capital and consolidated Tier 2 Capital. This sheet is partly automated via the “INPUT SHEET”. Where applicable, cells marked in blue are to be filled in.
- c. *The CA2 Template* establishes the Licence Holder’s capital requirement based on the consolidated risk-weighted credit and counterparty credit risk component, the consolidated market risk component, the consolidated operational risk component, the consolidated CVA OTC derivative instrument risk component and where applicable the consolidated large exposures risk and the consolidated Fixed Overhead Requirement.
- d. *The CA3 Template* calculates the Licence Holder’s consolidated CET1 capital ratio, the consolidated Tier 1 capital ratio and the consolidated total capital ratio.
- e. *The CA4 Template* contains memorandum items such as [a] deferred tax assets; [b] thresholds for CET 1 deductions; [c] investments in the capital of financial sector entities where the institution does not have a significant investment; [d] investments in the capital of financial sector entities where the institution has a significant investment; [e] Pillar II requirements; and [f] additional information for investment firms and for the calculation of the reporting thresholds.
- f. *The CA5 Template* is structured as follows:
  - i. *The CA5.1 (Transitional Provisions) Template* includes items which are covered under the transitional provisions, hence will be phased out in due course.
  - ii. *The CA5.2 (Grandfathered Instruments) Template* provides further details on the calculation of grandfathered instruments which do not constitute state aid.



- g. Any amount that increases the consolidated own funds or the consolidated own funds requirement will be reported as a positive figure. On the contrary, any amount that reduces the total consolidated own funds or the consolidated own funds requirement will be reported as a negative figure. Where there is a negative sign (-) preceding the label of an item, no positive figure is expected to be reported for that item.

**A detailed account of what information needs to be inputted in every row of the CA Templates is available from [Annex II to Draft ITS on Supervisory Reporting](#).**

## 5.10. The Group Solvency (GS) Template

This template requires different information on entities (including the Licence Holder) which form part of a Consolidated Group and is only subject to a semi-annual frequency. It consists of four parts:

a. Entities within the scope of consolidation

This introductory part requires basic details on the individual entities including (the Licence Holder) which form part of a Consolidated Group.

b. Information on individual entities subject to own funds requirements

The second part of this template (columns 070 to 240), is designed to gather information about the particular solvency requirements of each entity which forms part of a Consolidated Group on an individual basis.

c. Information relating to the contribution of entities to solvency of the group

The objective of the third part of this template is to identify which entities within the group generate the risks and raise own funds from the market as reported in columns 250 to 400.

d. Capital buffers

In this part information on capital buffers is provided.

**A detailed account of the information which is required to be inputted in every column of the GS Template is available from [Annex II to Draft ITS on Supervisory Reporting](#).**

## 5.11. Risks associated with non-trading book business

This category is made up of two risk components: (i) the consolidated credit/counterparty risk component; and (ii) the consolidated free deliveries.

### a. The consolidated credit/counterparty risk component

The consolidated credit/ counterparty risk component, being the possibility of a loss occurring due to:

- i. the failure of a debtor of the group to meet its contractual debt obligations; or
- ii. the loss in value of any other asset (excluding derivatives which are exclusively dealt within the sections on trading book business and the consolidated commodities instruments – risk component) which forms part of the consolidated balance sheet except for: (a) intangible assets including goodwill; (b) cash in hand and at bank; (c) those financial instruments which fall within the category of trading book business; and (d) commodity positions.

The consolidated credit/ counterparty risk can be measured through any one of the following two methods: (i) the Standardised Approach; and (ii) the Internal Ratings Based Approach (IRB), as referred to in Part Three, Title II of the CRR.

*N.B.* For an explanation of the Standardised Approach and the IRB approach to the calculation of the credit/counterparty risk component, please refer to section 4.2.1.1 of Appendix 1B to these Rules. The computation of the consolidated credit/counterparty risk is the same as the credit/counterparty risk applied on an individual basis.

### b. Consolidated free deliveries

Free Deliveries caters for the risk that the Licence Holder has either: (a) paid for securities, foreign currencies or commodities before receiving them or has delivered securities, foreign currencies or commodities before receiving payment for them; (b) in the case of cross-border transactions, one day or more has elapsed since the Licence Holder made that payment or delivery.

The free deliveries risk component calculation for a Consolidated Group is the same as that applied for the free deliveries risk component on an individual basis. Measurement of this risk component and the steps to be followed in the automated Consolidated COREP Return are illustrated in section 4.2.1.2 of Appendix 1B to these Rules.

### 5.12. The Consolidated Geographical Breakdown (CR GB) Template

- a. Licence Holders are only required to complete this template where the 'non-domestic' credit risk exposures in all 'non-domestic' countries in all exposure classes, as reported in row 850 of template 'CA4', are equal to or higher than 10% of total domestic and non-domestic original credit risk exposures as reported in row 860 of the same template. For this purpose, exposures shall be deemed to be domestic where they are exposures to counterparties located in the Member State where the institution is located. This requirement is only applicable to Category 3 Licence Holders pursuant to article 5 of the [Draft ITS on Supervisory Reporting](#). Licence Holders should refer to article 4 of EBA's Final draft ITS on supervisory reporting for the purpose of complying with the entry and exit criteria for reporting thresholds.

- b. *Steps to be followed in the Input Sheet of the Return:*

If the Licence Holder holds "any non-domestic original exposures in all 'non domestic' countries" then the amount must be filled in Section 6(g) of the INPUT SHEET. The 10% threshold described above will automatically be computed. If the threshold is reached, a pop-up will appear indicating "Kindly fill in the CR GB Template in accordance with the Entry & Exit criteria of Article 4 of the [Draft ITS on Supervisory Reporting](#)."

Licence Holders which are required to report the geographical distribution of exposures by country, should report the relevant data by accessing the CR GB Template. A separate CR GB Template must be filled in for every country of residence of the obligor. The automated Consolidated COREP Return caters for 3 countries.

- c. **A detailed account of the information which is required to be inputted in every column of the GS Template is available from [Annex II to Draft ITS on Supervisory Reporting](#).**

### 5.13. Consolidated settlement/delivery risk component - The Settlement/Delivery Risk (CR SETT) Template

Settlement risk is the risk that cash against documents transactions in financial instruments undertaken by members of a Consolidated Group are unsettled after their due delivery dates. The settlement risk component calculation for a Consolidated Group is the same as that applied for the settlement risk component on an individual basis. Measurement of this risk component and the steps to be followed in the automated Consolidated COREP Return are illustrated in section 4.2.7 of Appendix 1B to these Rules.

## 5.14. Consolidated Operational Risk Component - The Operational Risk (OPR) Template (applicable only to Category 3 Licence Holders)

Operational Risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

The operational risk capital requirement (“ORCR”) for a Licence Holder is an amount calculated in accordance with one of the following methods:

- a. The Basic Indicator Approach (‘BIA’) as set out in Chapter 2 of Title III, Part Three of the CRR;
- b. The Standardised Measurement Approach (‘SMA’) as laid down in Chapter 3 of Title III, Part Three of the CRR; and
- c. The Advanced Measurement Approach (‘AMA’) as outlined in Chapter 4 of Title III, Part Three of the CRR.

*N.B.* The consolidated operational risk component calculation for a Consolidated Group is the same as that applied on an individual basis. The manner in which the consolidated operational risk component should be calculated is explained in section 4.2.6 of Appendix 1B to these Rules.

## 5.15. Risks associated with trading book business

This category is made up of two risk components:

### a. *The consolidated position risk component*

The consolidated position risk component is defined as the risk of losses, arising from movements in market prices, in on and off balance sheet investments in financial instruments which qualify as trading book business. Licence Holders should refer to section 2 of Appendix 1B to these Rules for a comprehensive definition of trading book and its elements. For the purpose of the calculation of position risk, financial instruments are categorised under one of the following titles: (i) Traded Debt Instruments; (ii) Traded Equities; (iii) Collective Investment Schemes; and (iv) Derivatives. The methodology for computing the consolidated position risk component calculation is the same as that outlined in section 4.2.2.1 of Appendix 1B to these Rules.

*N.B.* As it is generally the exception that Licence Holders invest in derivatives, Licence Holders which form part of a Consolidated Group which provide investment services in relation to financial derivative instruments should contact the MFSA for guidance as to how the derivatives related consolidated position

risk component should be catered for in the automated Consolidated COREP Return.

*b. The consolidated counterparty credit risk component*

Counterparty Credit Risk is the amount of capital which any of the members within the Consolidated Group hold against exposures in financial derivative instruments and credit derivatives.

In terms of article 272 of the CRR, counterparty credit risk means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

*N.B.* The computation of the consolidated counterparty credit risk is the same as the counterparty credit risk applied on an individual basis, which is explained in Section 4.2.2.2 of Appendix 1B to the Rules.

*5.16. Foreign Exchange Risk Component-The Market Risk: Standardised Approach Approaches for Foreign Exchange Risk (MKR SA FX) Template*

Foreign Exchange Risk is the risk that an asset or liability in the consolidated financial statements of the Consolidated Group denominated in a currency other than the reporting currency may be adversely affected by a change in the value of the foreign currency.

*N.B.* The consolidated foreign exchange risk component calculation for a Consolidated Group is the same as that applied for this risk component when calculated on an individual basis. The manner in which the foreign exchange risk component should be calculated is explained in section 4.2.5 of Appendix 1B to these Rules.

*5.17. Commodities Instruments - Risk Component - The Market Risk: Standardised Approach for Commodities (MKR SA COM) Template*

Commodities Risk is the risk component required to cover the risk associated with the holding or taking positions, by a member/s of a Consolidated Group, in commodities such as physical products which are and can be traded in the secondary market including commodity derivatives. The commodities instruments – risk component calculation for a Consolidated Group is the same as that applied for this risk component when calculated on an individual basis. Measurement of this risk component and the steps to be followed in the automated Consolidated COREP Return are illustrated in section 4.2.3 of Appendix 1B to these Rules.

## 5.18. *The Consolidated Market Risk Internal Risk Models (MKR IM) Template*

Licence Holders which are permitted to have an internal risk measurement model should refer to [Annex II to Draft ITS on Supervisory Reporting](#) to complete the MKR IM Template.

## 5.19. *Consolidated Credit Valuation Adjustment Risk Component - The Credit Valuation Adjustment (CVA) Template*

Licence Holders that provide investment services in relation to over-the-counter (OTC) derivatives (except for credit derivatives recognised to reduce risk-weighted exposure amounts for credit risk) shall be required to hold own funds for credit valuation adjustment risk (CVA).

The term 'CVA' is defined in article 381 of the CRR as an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. That adjustment reflects the current market value of the credit risk of the counterparty to the Licence Holder, but does not reflect the current market value of the credit risk of the Licence Holder to the counterparty.

The CVA risk component calculation for a Consolidated Group is the same as that applied for the CVA risk component on an individual basis. Measurement of this risk component and the steps to be followed in the automated Consolidated COREP Return are illustrated in section 4.2.8 of Appendix 1B to these Rules.

## 5.20. *Consolidated Fixed Overheads Requirement*

The fixed overheads requirement is calculated by holding eligible capital of at least one quarter of the fixed overheads of the preceding year.

The consolidated fixed overheads requirement calculation for a Consolidated Group is the same as that applied for the fixed overheads requirement on an individual basis. Measurement of the calculation of the fixed overheads requirement and the steps to be followed in the automated Consolidated COREP Return are illustrated in section 4.3 of Appendix 1B to these Rules.

## 5.21. *Large Exposures Risk Component – (applicable only to Category 3 Licence Holders) - The Large Exposure Templates*

The purpose of the large exposure requirement is to ensure that a Consolidated Group manages its exposure to counterparties within appropriate limits set in relation to its capital resources requirements. A large exposure may be in the form of a loan to a single borrower, or it may arise across many transactions involving different types of financial instruments with several counterparties.

A large exposure means the exposure by a Consolidated Group to: (a) an individual client; or (b) a group of connected clients, where its value is equal to or exceeds 10% of the group's Consolidated Eligible Capital (the terms 'individual client' and 'group of connected clients' are defined in point (A) of section 4.2.4 of Appendix 1B to these Rules).

Consolidated Eligible Capital means the sum of Tier 1 capital and Tier 2 capital that is equal to or less than one third of Tier 2 capital.

For the purposes of the Consolidated Eligible Capital computation, the Licence Holder shall treat a Consolidated Group as a single institution, as provided in point (47) of article 4(1) of the CRR.

*a. Condition regarding Individual Large Exposures*

Exposures by a Consolidated Group to any class of the above-mentioned categories of counterparties should not exceed 25% of the Group's Eligible Capital (after taking into account the effect of credit risk mitigation in accordance with articles 399 to 403 of the CRR).

Where that individual client is either a credit institution or an investment firm or where a group of connected clients includes one or more credit institutions or investment firms, that value shall not exceed 25% of the Group's Eligible Capital or €150 million, whichever is the higher, provided that the sum of exposure values, after taking into account the effect of the credit risk mitigation, in accordance with articles 399 to 403 of the CRR, to all connected clients that are not credit institutions or investment firms, does not exceed 25% of the Group's Eligible Capital.

Where the amount of €150 million is higher than 25% of the Group's Eligible Capital, the value of the exposure, after taking into account the effect of credit risk mitigation, in accordance with articles 399 to 403 of the CRR, shall not exceed a reasonable limit in terms of the Group's Eligible Capital. That limit shall be determined by the Consolidated Group, in accordance with the policies and procedures to address and control concentration risk referred to in Appendix 10, and shall not be higher than 100% of the Group's Eligible Capital.

Notwithstanding the above, the Authority retains the right to set a lower limit than the €150 million referred to in the preceding paragraph.

As stipulated in article 395 (3) of the CRR, the Consolidated Group shall at all times comply with the above-mentioned limit. This limit may be exceeded for the exposures on the Group's trading book if all



the conditions in article 395 (5) of the CRR are met. In this regard, the Consolidated Group shall be required to hold an additional own funds requirement (i.e. the Large Exposures Risk Component) on the excess in respect of this limit, which shall be calculated in accordance with articles 397 and 398 of the CRR.

Should the Consolidated Group find that for reasons beyond its control it has incurred an exposure to an individual client or a group of connected clients, (e.g. following merger, amalgamation or buy-out), which results in it exceeding any of the above-mentioned limits, it should report the matter without delay to the Authority. The Authority will discuss the circumstances of any such exposures and where the situation warrants it, it may allow the Consolidated Group a limited period of time in which to comply with the limits.

Where the amount of €150 million referred to above is applicable, the Authority may allow on a case-by-case and strictly on an exceptional basis, the 100% limit in terms of the Group's Eligible Capital, to be exceeded.

*N.B.* The consolidated large exposures risk component calculation for a Consolidated Group is the same as that applied for this risk component when calculated on an individual basis. The types of Counterparties, the measurement of this risk component, exempt exposures and the steps to be followed in the automated COREP Return for Consolidations are illustrated in section 4.2.4 of Appendix 1B to these Rules.

### *5.22. Exemption from Part Six of the CRR on consolidated basis (liquidity)*

In terms of the CRR, a Category 3 Licence Holder which forms part of a Consolidated Group is required to comply with Part Six (Liquidity) on a consolidated basis.

For the purpose of article 11(3) of the CRR, a Consolidated Group, which comprises only of investment firms, that are not significant in terms of the nature, scale and complexity of their investment services activities, are exempt from compliance with the obligations in Part Six of the CRR (Liquidity) on a consolidated basis.

The Authority shall apply SLCs 1.55 to 1.58 inclusive of Part BI for the purposes of determining whether a Category 3 Licence Holder is to be considered significant.



## 5.23. Representations

The manner in which the representations sheet should be filled in, is explained in section 3.23 of Appendix 1B to these Rules.

## 5.24. Validation Sheet

**Prior to submitting the automated COREP Return for Consolidations to the MFSA, the Licence Holder must ensure that all Validations are marked “OK”. Where the Validation is marked “ERROR”, the Licence Holder should check and correct the relevant sheet accordingly.**