Notification template for Article 124 of the Capital Requirements Regulation (CRR) – Risk Weights

Template for notifying the European Banking Authority (EBA), European Central Bank (ECB) and European Systemic Risk Board (ESRB) of higher risk weights being set for immovable property pursuant to Articles 125(1) and 126(1) CRR or on applying stricter criteria than those set out in Articles 125(2) and 126(2) CRR

Please send/upload this template to:

- macropru.notifications@ecb.europa.eu when notifying the ECB (under Article 5 of the Single Supervisory Mechanism (SSM) Regulation[1]);
- DARWIN/ASTRA when notifying the ESRB;
- eportal.eba.europa.eu when notifying the EBA.

The ESRB will publish the risk weights and criteria for exposures referred to in Articles 125, 126 and 199(1)(a) of the CRR as implemented by the relevant authority. This notification will be made public by the ESRB after the relevant authorities have adopted and published the notified macroprudential measure[2].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please submit the notification template in a format that allows the information to be read electronically.

1. Notifying national authority	
1.1 Name of the notifying authority	**Malta Financial Services Authority / Central Bank of Malta**.
1.2 Country of the notifying authority	**Malta**.
2. Scope of the notification and description of the measure	
2.1 Exposures secured by mortgages on residential property	a) Do you intend to set a higher risk weight than that set out in Article 125(1) CRR for exposures fully and completely secured by mortgages on residential property? **No – risk weights remain in line to Article 125(1) CRR** b) If yes, please specify: - Which risk weight you intend to change. Please specify the new risk weight to be set (between 35% and 150%). - To which part(s) of your Member State territory will the new risk weight for exposures set out above apply?

[1] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).
[2] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

	- To which property segment(s) will the new risk weight for exposures set out above apply? **No changes to risk weightings are envisaged at this stage and cross jurisdiction impact, if any, would be minimal.**
	c) Do you intend to apply stricter criteria than those set out in Article 125(2) CRR for exposures fully and completely secured by mortgages on residential property? **Stricter criterion adopted since 2008 – the part of the mortgage loan to which the 35% risk weight is assigned, shall not exceed 70% of the market value of the property. At this stage, there are no intentions of relaxing this rule.** d) If yes, please specify: - What criteria you intend to add or tighten. **Stricter criterion to the risk weight on residential real estate exposure where the 35% risk weight is applied to exposures secured by mortgage property that have a loan-to-value ratio of up to 70%, as against 80% as stipulated by CRR Article 125(2d).** - To which part(s) of your Member State territory the stricter criteria set out above will apply? **All credit institutions licenced by the MFSA** - To which property segment(s) will the new risk weighting for exposures set out above apply? **All exposures secured by mortgages on residential property**
2.2 Exposures secured by mortgages on commercial immovable property	e) Do you intend to set a higher risk weight than that set out in Article 126(1) CRR for exposures fully and completely secured by mortgages on commercial immovable property? **No – risk weights remain in line to Article 126(1) CRR** f) If yes, please specify: - What risk weight you intend to set. Please specify the new risk weight to be set (between 50% and 150%). - To which part(s) your Member State territory will the new risk weight set out above apply? - To which property segment(s) will the new risk weight set out above apply?
	g) Do you intend to apply stricter criteria than those set out in Article 126(2) CRR for exposures fully and completely secured by mortgages on commercial immovable property? **No – criteria to remain in line to Article 126(2) CRR** h) If yes, please specify: - What criteria you intend to add or tighten. - To which part(s) of your Member State territory will the stricter criteria set out above apply? - To which property segment(s) will the new risk weight set out above apply?

2.3 Other relevant information	Any other relevant information.
3. Timing for the measure	
3.1 Timing for the decision	What is the date of the official decision? For SSM countries when notifying the ECB: provide the date on which the decision referred to in Article 5 of the Single Supervisory Mechanism Regulation (SSMR) will be taken. Click here to enter a date. **These measures have been in force for an extended period of time and there are currently no plans to relax them.**
3.2 Timing for publication	What is the date of publication for the notified measure? Click here to enter a date. **Please refer to 3.1 above**
3.3 Disclosure	Information about the strategy for communicating the notified measure to the market. Please provide a link to the public announcement, if any. **The stricter criteria on CRR for exposures fully and completely secured by mortgages on residential property is reflected in the Maltese Subsidiary Legislation 371.17 on *CRR (implementing and transitional provisions) regulations*, Article 5:** https://legislation.mt/eli/sl/371.17/eng/pdf
3.4 Timing for application	What is the intended date for application of the measure? Click here to enter a date. **The measure is already in force**
3.5 Frequency/review	Does your decision to set higher risk weights have an expiry date? When will the decision be reviewed? **The risk weights still remain in line to CRR Articles 125(1) and 126(1). Nevertheless, a stricter criterion is applied than those set out in Article 125(2) CRR for exposures fully and completely secured by mortgages on residential property. For the latter, no expiry date has been assigned.** **Moreover, a review is currently underway, in line to CRR 124(2), to assess the adequacy of a 35% risk weight for exposures secured by mortgages on residential property and 50% risk weight for exposures secured on commercial immovable property, together with the criteria being adopted. The assessments are expected to be finalised in 2024. Additionally, this may need to be revisited further in the near future given the envisaged changes to Article 124 emanating from CRR III.**
4. Reason for setting higher risk weights or stricter criteria than those set out in Articles 125(2) or 126(2) CRR	
4.1 Regulatory context	What are the current risk weights applied to exposures secured by mortgages on residential property and on commercial immovable property?

	Risk weights in line to CRR Articles 125(1) for residential property and 126(1) for commercial property.
4.2 Risk weights versus actual risks	Specify the reasons why the risk weights for exposures to one or more property segments fully secured by mortgages on residential property or on commercial immovable property located in one or more parts of your Member State territory do not reflect the actual risks of these exposures and put your answers in perspective vis-à-vis the real estate markets of other European Member States. **Risk weights in line to CRR Articles - 125(1) for residential property and 126(1) for commercial property.**
4.3 Motivation	a) Loss experience - Provide details about the loss experience in the real estate market of your Member State that has led you to conclude that higher risk weights must be set or stricter criteria applied than those set out in Articles 125(2) and 126(2) CRR. **Data available on historical loss experience indicate a low percentage. Loss experience data are analysed at periodical intervals.** - Which of the data referred to in Article 430a CRR were considered in your assessment? **The data has been sourced from the EBA implementing technical standards on supervisory reporting - COREP C_15.00.** - Provide any other indicators and other relevant information on the basis of which the assessment was made. If possible, please provide the data (preferably in an Excel file). **None at this stage. In line with the regulation, this will be reviewed should we see any escalation in loss experience and/or any other untoward feature.**
	b) Forward-looking real-estate market developments - Describe the forward-looking real-estate market developments that led you to conclude that higher risk weights should be set or stricter criteria applied than those set out in Articles 125(2) and 126(2) CRR. **Forward looking indicators continue to be evaluated and considered at periodical intervals. It is pertinent to note that growth in population through immigration to Malta has contributed to the property market in remaining buoyant.** - Provide the indicators and any other relevant information on the basis of which the assessment was made. If possible, please provide the corresponding data (preferably in an Excel file). **A suite of potential indicators is currently being assessed. Data availability remains a key element.**
	c) Financial stability considerations - What are the financial stability considerations that were taken into account? Please include: o the factors that could 'adversely affect current or future financial stability' as referred to in Article 124(2)(2) CRR; and,

	○ the indicative benchmarks that you took into account in determining the higher risk weights. **Banks' concentration to mortgage lending together with the growth in both mortgage lending and property prices, renders banks' collateral portfolio - which is predominantly property related, vulnerable to losses which may give rise to instability within the financial system. The stricter criterion applied addresses risks arising from the stock of residential real estate mortgage loans, through enhanced banks' resilience, requiring holding of higher capital in line with the risk exposure. Moreover, this discourages excessive risk taking by banks, whilst also inducing risk aversion from the borrowers' side.** - Provide the indicators and any other relevant information on the basis of which the assessment was made. If possible, please provide the data (preferably in an Excel file). **The stricter criterion has been in place since 2008. Indicators that would be relevant for the analysis include:** • **resident mortgage lending growth** • **property price growth** • **loss experience of exposures secured by immovable property** • **future growth prospects of residential property through a forward-looking perspective.**
5. Sufficiency, consistency and non-overlap of the policy response	
5.1 Sufficiency of the policy response	For a macroprudential policy to be 'sufficient', the policy responses must be deemed to significantly mitigate, or reduce the build-up of, risks over an appropriate time horizon with a limited unintended impact on the general economy. Note that the ESRB will use the assessment of the macroprudential stance as relevant input in assessing the sufficiency of the macroprudential policy in the Member State. Please provide any additional information that the ESRB should consider in assessing the sufficiency of the policy response. **The stricter criterion than those set out in Article 125(2) target risks arising from the stock position of residential real estate loans, with the objective of increasing capital for banks which are exposed to loans which have the market value of the property above 70%, rather than above 80% as stipulated by CRR Article 125(2). This policy measure is deemed to be effective in limiting risk build-up given that it strengthens banks' resilience through higher capital holding together with discouraging excessive risk taking. Notwithstanding the effectiveness of the measure, Authorities over time have implemented additional complimentary macroprudential measures that also have the objective of mitigating risks related to exposures**

	secured by residential property, namely: Borrower Based Measures – enacted on July 2019; and Sectoral Systemic Risk buffer applicable to domestic RRE mortgages– which is intended to be activated on 30th September 2023 (with full phase-in by 31st March 2024).
5.2 Consistency of application of the policy response	For a macroprudential policy to be 'consistent', the policy instruments must be deemed to meet their respective objectives, as outlined in ESRB/2013/1[3], and they must be implemented in accordance with the common principles set out in the relevant legal texts. Note that the ESRB assessment of consistency will consider whether the same systemic risks are addressed in a similar way across and within the Member States over time. Please provide any additional information that the ESRB should consider in assessing the consistency of the policy response. **The stricter criterion than those set out in Article 125(2) addresses the following ESRB intermediary objective - *Mitigate and prevent excessive credit growth and leverage*, as outlined in ESRB Recommendation ESRB/2013/1, given the tightening of the loan-to-value requirement attributed to the 35% risk weight for loans secured by residential property.**
5.3 Non-overlap of the policy response	For a policy instrument to be 'non-overlapping', it should aim to address a systemic risk that either differs from a risk addressed by other active tools in the same Member State, or be complementary to another tool in that Member State which addresses the same systemic risk. - Are other policy instruments used to address the <u>same</u> systemic risk? - If yes, please explain the need for more than one instrument to address the same systemic risk and how the different instruments interact with each other. **The risks addressed by the stricter criterion than those set out in Article 125(2) is complimented by the: domestically implemented borrower-based measures that incorporate caps on the loan-to-value, debt service-to-income and maturity limits; and the sectoral systemic risk buffer that applies to domestic residential real estate mortgages secured by domestic real estate. Nevertheless, the stricter criterion applied is designed to address the structural element of residential real estate risk (ie. applicable to the stock of RRE loans), in contrast to the (i) borrower based measures which is applicable to new loans being originated (ie. applicable to the flows of RRE loans), having the objective to strengthen the resilience of lenders and borrowers against the potential build-up of vulnerabilities; and (ii) sectoral systemic risk buffer which is applicable on both the stock and flow of RRE loans, which acts as a loss absorber through the locking away of capital, in the eventuality of a RRE related risk materialisation.**

[3] Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) (OJ C 170, 15.6.2013, p. 1).

6. Cross-border and cross-sector impact of the measure	
6.1 Assessment of cross-border effects and the likely impact on the Internal Market **(Recommendation ESRB/2015/2[4])**	Assessment of the cross-border effects of implementation of the measure. a. Assessment of the spillover channels operating via risk adjustment and regulatory arbitrage. The relevant indicators provided in Chapter 11 of the ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector[5] and the Framework to assess cross-border spillover effects of macroprudential policies of the ECB Task Force on cross-border spillover effects of macroprudential measures can be used. b. Assessment of the: ○ cross-border effects of implementation of the measure in your own jurisdiction (inward spillovers); ○ cross-border effects on other Member States and on the Single Market of the measure (outward spillovers); ○ overall impact on the Single Market of implementation of the measure ○ The stricter criterion is applied on all banks licenced in Malta, thus limiting inward spillovers. Given that the volume of cross border mortgage lending is limited, at this juncture, no cross-border effects onto other member states are expected.
6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	Referring to your Member State's specific characteristics, what is the scope for "leakages and regulatory arbitrage" in your own jurisdiction (i.e. circumvention of the measure/leakages to other parts of the financial sector)? Is there scope for "leakages and regulatory arbitrage" in other jurisdictions? Risk attribute to leakages to other institutions and regulatory arbitrage is deemed to be very minimal in view that credit institutions issue most of the mortgage loans to households in Malta.

[4] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2) (OJ C 97, 12.3.2016, p. 9).
[5] Available on the ESRB's website at www.esrb.europa.eu.

7. Miscellaneous	
7.1 Contact person(s)/mailbox at notifying authority	Contact person(s) (name, phone number and e-mail address) and mailbox for further inquiries. MFSA: Mr Jorge Guada Prada, +356 25485611; e-mail Jorge.guadaprada@mfsa.mt CBM: Mr Stephen Attard, +356 25504000; e-mail: attards@centralbankmalta.org
7.2 Any other relevant information	
7.3 Date of the notification	Please provide the date on which this notification was uploaded/sent. 08/03/2023