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Implications of the Bank Recovery and Resolution Directive on Non-Core Banks and Investment Firms in Malta**

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ABSTRACT

Through this research study, the authors set out to analyse the implications of the BRRD on non-core domestic banks as well as investment firms. The main aim behind this study is researchersto gain an insight into how such institutions are managing in view of the requirements of the BRRD. Besides building a thorough understanding of the impact of BRRD provisions on these institutions, this study also sets out to explore the potential challenges that might arise following the application of said provisions. Purposive sampling was applied, whereby the researchers collected the data by holding semi-structured interviews with representatives from a select number of non-core domestic banks and investment firms. The findings converge on a number of points. The institutions under study lacked the necessary guidance, largely because the BRRD was implemented rather quickly to immediately address the weaknesses of resolution and supervision that came to light after the 2008 financial crisis. In this respect, the institutions concerned were not able to invest adequate time in their preparation process. In line with previous local research, an ambivalent approach was also observed in relation to the benefits of the measures under the BRRD, especially in the case of small-sized institutions. These outcomes show that the BRRD might be too recent of a regulatory framework to bear concrete results. Although it has generally been welcomed as a constructive measure bent on bringing improvements in the spheres of recovery and resolution, there needs to be further time, and understanding and work by both authorities and institutions to fully realise its benefits. Given that the BRRD is an important step towards further maintaining financial stability and fighting against financial calamities, this study carries the value of bringing together the existing research done already in this area, further extending the research to cover more domestic institutions and ultimately contributing to a more holistic understanding of the implications of the BRRD in Malta.

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1. Background information

The 2008 financial crisis has accentuated the need for a structured framework to be developed in response to the major weaknesses exposed in the financial sector. Chief among these weaknesses, was the threat to financial stability posed by the size, complexity and interconnectedness of financial institutions in distress if allowed to go bankrupt (also known as the ‘too big to fail’ problem). What

typically followed was the bailout of failing firms, which inappropriately shifted most of the losses to taxpayers.
The regulatory response taken on an international level was aimed to reduce both the likelihood and the impact of failure, with the main focus being on enhancing resolution regimes (Freudenthaler, et al., 2016). In fact, the 'Key Attributes of Effective Resolution Regimes for Financial Institutions' adopted by the Financial Stability Board (FSB) and endorsed by the G20 in 2011, set out the powers and tools that allow for an orderly resolution of financial institutions while in turn ensure the continuity of operations.
In line with the FSB recommendations, considerable efforts have been made by legislators and supervisors within the European Union (EU) aimed at ensuring that EU institutions are well supervised and better capitalised, as well as establishing orderly resolution processes which secure market discipline (European Banking Authority [EBA], n.d.). This resulted in a new EU legal framework, the Bank Recovery and Resolution Directive (BRRD), Directive 2014/59/EU, which primarily stipulates that in those scenarios where financial instability prevails, the shareholders and creditors of the failing institution, rather than the taxpayer, should bear the losses incurred. The BRRD provides for a harmonised framework whereby it lays out a set of rules that should be consistently applied in those instances when credit institutions and investment firms from all EU Member States face potential or actual resolution (EBA, n.d.). Further complementing the introduction of the BRRD is additional EU legislation, including the capital adequacy requirement for banks (CRR/CRD), the European Market Infrastructure Regulation (EMIR), the Deposit Guarantee Scheme Directive (DGSD), and EU state aid rules (Freudenthaler, et al., 2016).
The BRRD outlines a number of measures carrying the following objectives. Firstly, national authorities are supplied with the necessary tools that would enable them to take pre-emptive action to fend off the resolution of troubled institutions. Secondly, firms and authorities are obliged to prepare in advance against crises scenarios. Thirdly, national authorities are empowered with harmonised resolution tools to enable swift action from their part in the advent of bank collapse. Lastly, authorities are enabled to draft out plans for effective coordination when faced with a failed cross-border bank.
The BRRD framework accounts for the global nature of several institutions. This explains why it supplies the tools which enable and encourage strong collaboration between the national authorities concerned. This way, resolution tools are applied coherently across different borders and across different jurisdictions.

1.2 Financial institutions covered by the BRRD

The main financial institutions falling under the scope of the BRRD include credit institutions and certain investment firms. As will be further explained in the following sections, this study principally focuses on non-core domestic banks and investment firms, hereinafter collectively referred to as 'institutions'. These are respectively defined as outlined below.

1.2.1 Credit institutions

Point (1) of Article 4(1) of Regulation (EU) No 575/2013 defines a 'credit institution' as "an undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account".
According to the *Banking in Malta 2016/2017* report issued by KPMG (2016), there are 26 licensed credit institutions operating in and/or from Malta (as at September 2016), seven of which are core domestic banks, six are non-core domestic banks and the rest are international banks.
For the purpose of this study, a distinction between the two main types of banks needs to be drawn. 'Core domestic banks' have a "wide spread branch network, provide a full spectrum of banking services and are core providers of credit and deposit services in the local market" (KPMG, 2016, p.23), whereas 'non-core domestic banks' are defined as "banks which play a more restricted role in the economy as they cater mainly for non-residents, with some activity in the local market" (KPMG, 2016, p.23).

The following is a list of Maltese licensed non-core domestic banks[1]:

1. FCM Bank Limited
2. FIMBank plc
3. IIG Bank (Malta) Ltd
4. Izola Bank plc
5. MFC Merchant Bank Ltd
6. Sparkasse Bank Malta plc

1.2.2 Investment firms

Article 2(1) of the Recovery and Resolution Regulations, 2015, under the Malta Financial Services Authority (MFSA) Act, Cap. 330 of the Laws of Malta, provides that an 'investment firm':

> has the same meaning as that assigned to it in point (2) of Article 4(1) of the CRR that is subject to the initial capital requirement of €730,000, excluding firms which are not authorised to provide the investment service falling within points (3) [dealing on own account], (7) [underwriting of instruments and/or placing of instruments on a firm commitment basis] and (9) [operation of a multilateral trading facility] of the First Schedule to the Investment Services Act.

In this respect, the investment firms falling under the scope of the BRRD are those in possession of a Category 3 Investment Services Licence (MFSA, 2015).
The following is a list of Category 3 investment services licence holders[2]:

1. Binary Investments (Europe) Ltd
2. Calamatta Cuschieri Investment Services Ltd (incorporating Crystal Finance Investments Limited)
3. Charts Investment Management Service Limited
4. Domino Europe Limited
5. Finco Treasury Management Limited
6. FXDD Malta Limited
7. NSFX Limited
8. Rizzo, Farrugia & Co (Stockbrokers) Ltd
9. RTFX Limited *(licence surrendered voluntarily)*
10. TMS Brokers Europe Ltd

1.3 Rationale for research

The BRRD is regarded as a potential game changer, empowering national authorities with the necessary tools to intervene early enough in order to ensure stability in the financial system.
Given that previous local research about the BRRD was primarily centred on core domestic banks and a few investment firms, the researchers will be further contributing to what has been hitherto studied by analysing the implications of the BRRD on non-core domestic banks as well as investment firms. This will allow the researchers to gain an insight into how such institutions are faring in view of the requirements of the BRRD.

1.4 Objectives of the study

The aim of this study is to inquire into and obtain an understanding of the impact of BRRD provisions on non-core domestic banks and investment firms in Malta. In order to fulfil the aim of this study, the objectives are:

[1] As per *Banking in Malta 2016/2017* (KPMG, 2016, p.25); confirmed via the Financial Services Register on the MFSA website <http://www.mfsa.com.mt/pages/licenceholders.aspx>
[2] As per the Financial Services Register on the MFSA website <http://www.mfsa.com.mt/pages/licenceholders.aspx>

a. to gain an in-depth understanding of the impact of BRRD provisions on non-core domestic banks and investment firms in Malta in both the performance of ordinary business and/or in the event of financial distress; and
b. to explore the potential challenges that might arise following the application of BRRD provisions.

1.5 Scope and limitations

The scope of this research study was to examine how non-core domestic banks and investment firms were impacted by the BRRD.
A potential limitation can be attributed to the limited number of qualitative studies researched through the literature that explore the implications of the BRRD on financial institutions. Since the BRRD is quite a recent directive, it might be expected that the literature is somewhat limited, especially in larger countries where more financial institutions need to be taken into consideration in order to be able to analyse the impact of the BRRD on such institutions.
Due to the nature of the study, purposive sampling was used. This resulted in a small sample size, hence limiting the study's findings to a certain extent.

2. Literature

2.1 Introduction

The aim of this literature review is to understand what led to the establishment of the BRRD, Directive 2014/59/EU, its provisions, and its implications on banks and investment firms. The introduction of the BRRD put an end to the disorderly bailouts and set new principles by revamping the way of how crisis situations are to be dealt with. This has been primarily achieved by shifting the burden of losses from taxpayers to shareholders and creditors, thereby making shareholders responsible for their investment decisions (Gatti, 2016).
This chapter presents a review together with a critique of the literature available on the impact of the Directive in EU Member States. Literature searches carried out using EBSCO Research Database, HeinOnline Law Journal Library, SSRN, Google Scholar and the EBA search feature, identified various research studies in this area. The available literature was then thoroughly analysed and the most relevant material in relation to this study's aims and objectives is presented in this chapter.

2.2 Background – What led to the establishment of the BRRD

Deemed the worst financial shock since the Great Depression of the 1930s, the 2008 global financial crisis acted as a catalyst for major reforms in banking regulation. Indeed, the crisis brought to light several deficiencies in financial regulation, consequently emphasising the need for urgent and extensive repair (Hadjiemmanuil, 2015).
The widespread failure of notable banks during the crisis heightened the awareness of systemic risk across the financial services industry. The degree of power and influence that banks have on the industry at large does not only correspond to the size of the institution but also to the connections between banks (European Commission [EC], 2012). Such interlinkages demeaned the overall financial stability as the failure of one bank led to cross-border spillovers.
Corresponding to what Mervyn King, the former Governor of the Bank of England, rightly pointed out earlier on during the crisis that "global banks are global in life but national in death" (Turner, 2009 cited in Hadjiemmanuil, 2015, p.10), the affected banks had no choice other than to turn to their national governments for support (Hadjiemmanuil, 2015). Despite it being the easiest solution at that time, the process of bailing out troubled firms not only had its negative repercussions on taxpayers' money but it also put at further risk the stability of the financial system (Attinger, 2011).
In its impact assessment (IA) document addressing the 2008 crisis, the EC (2012) sets forth a number of problems related to the bailout of banks. One main problem is the distortion of competition between banks, which brings with it the creation of moral hazard. Systemic institutions have an advantage over their non-systemic competitors since they are perceived to benefit from an implicit state guarantee and are thus able to raise funds in the market at a low cost. Subsequently, systemic firms are bound to take on more risk if there is the prospect that the state will make up for the losses when things go wrong.

Therefore, rescuing banks with public funds can potentially manifest itself to be in support of the wrong incentives (Attinger, 2011).
The real problem hence lay in the lack of adequate measures in resolving distressed financial institutions. The fact that the majority of European authorities did not possess the tools to intervene early enough in a banking crisis was already troubling. Still, the diverging approaches adopted by those few authorities which had some kind of procedures in place hardly improved the overall situation. This lack of cross-border harmonisation was likely to complicate and hinder the efficient handling of a crisis between the different states, thereby weakening the functioning of the Internal Market (EC, 2012).
As a result, it was essential to come up with a better way to effectively deal with the recovery and resolution of financial institutions. Eventually, the EC (2012) issued a proposal for the establishment of a framework for the recovery and resolution of credit institutions and investment firms – this being included within the previously mentioned IA report published in June 2012. Such a proposal led to the introduction of the BRRD, which came into force on 2 July 2014, with its provisions becoming applicable from 1 January 2015.

2.3 What is the BRRD?

Attinger (2011) observes that the establishment of a feasible resolution framework must ultimately be based upon definite objectives which address the shortcomings discussed above. These include the protection of financial stability, depositor protection, and protection of public confidence, public funds and human rights. Therefore, in order to achieve these objectives, who should bear the losses in the event of bank resolution?
The BRRD and the Single Resolution Mechanism (SRM) within the Banking Union ensure that the burden of resolving unsound or failing institutions does not unfairly fall on taxpayers. Rather, shareholders should be the first to bear the losses, duly followed by creditors. However, it should be noted that, in accordance with the 'no creditor worse off' principle, creditors cannot suffer greater losses than they would have incurred under normal insolvency proceedings.
Essentially, the BRRD lays out a comprehensive set of measures which revolve around four key elements (EC, 2014): (i) preparation and prevention of resolution via recovery and resolution plans; (ii) early intervention by the supervisor; (iii) the application of resolution tools in cases of actual bank failures; and (iv) cooperation and coordination between national authorities.
Each bank and investment firm that falls under the scope of the BRRD is required to draw up a detailed and credible recovery plan. This plan sets out the actions to deal with situations that could threaten the financial viability of the institution. The resolution authority within each Member State is in turn responsible for ensuring the appropriateness and effectiveness of the plan. If it is deemed that a plan does not satisfy the requirements under the BRRD, the respective institutions are required to take the necessary measures for them to be in line with the objectives of the Directive. Resolution authorities are also responsible for preparing a resolution plan for each firm.
Meanwhile, in the case that a bank shows any warning signs of financial distress, the BRRD empowers resolution authorities to be able to intervene sufficiently early and quickly enough in order to ensure the protection of the firm. This typically involves dismissing current management and putting the bank into administration, as well as requiring the bank to carry out a debt-restructuring plan supported by its creditors.
Should the bank's situation continue to deteriorate, the resolution authority will be obliged to step in once again to resolve the issue through the application of resolution tools. These include the power to either sell a part of or the whole bank, or else merge the business with another bank; to establish a bridge bank to take on and thus ensure the continuity of the failing bank's critical functions; to separate bad assets from good ones by transferring them to a 'bad bank'; and to convert the bank's debt into equity or write it down.
The BRRD also allows for harmonisation of powers across national authorities within EU Member States. This promotes cooperation especially in cases of failing institutions that have a cross-border presence. Resolution authorities will therefore be able to collaborate closely in resolving the institution in an orderly manner without leaving a drastic impact on the financial sector.

2.4 Implementation of the BRRD

The BRRD brought about a number of changes in existing legislation, as well as the implementation of new requirements among EU Member States. According to Article 130 of the Directive, Member States were required to adopt the necessary regulations by 31 December 2014 in order for these to come into effect from 1 January 2015. The provisions on the bail-in tool were, however, held back until 1 January 2016. As per IP/15/5057 and IP/15/5827 issued by the EC (2015a; 2015b), eleven EU countries, including Malta, failed to meet this deadline, with six of these countries eventually referred to the EU Court of Justice after failing to comply with the renewed deadline.

BRRD provisions were subsequently transposed into Maltese law around mid-September of 2015 through the enactment of the Recovery and Resolution Regulations, 2015, under the MFSA Act, Cap. 330 of the Laws of Malta. The MFSA, which is primarily responsible for regulating the financial services industry, was designated as the national resolution authority in Malta. More specifically, the Board of Governors of the MFSA has been entrusted with resolution powers. This is in line with Article 3 of the BRRD which calls for the appointment of a public administrative authority or an authority entrusted with public administrative powers as a resolution authority.

Stanghellini (2016) notes that such a concentration of powers has its advantages and disadvantages. Whereas it allows for the effective exchange of information between supervisory and resolution functions, thus enhancing coordination, it is likely to give rise to conflicts of interest between these two functions. In order "to ensure operational independence and avoid conflicts of interest" between the different functions of the appointed authority, Article 3(3) of the Directive provides for structural arrangements to be put in place.

Accordingly, the MFSA has gone a step further and set up the Resolution Committee and Resolution Unit to maintain independence from the supervisory function, while also allowing for better delegation of roles. As laid down in the First Schedule to the Malta Financial Services Authority Act, the Resolution Committee is composed of three persons appointed by the Central Bank of Malta, the MFSA, and the Ministry for Finance. These positions are currently held by Mr Emanuel Ellul, Mr Paul Spiteri and Mr Alfred Sladden.

Conforming to the provisions under the BRRD, paragraph 3(2) of the First Schedule to the Malta Financial Services Authority Act sets out the objectives of the Resolution Committee. The resolution of an institution aims to safeguard the continuity of essential banking operations; to protect depositors, client assets and public funds; to minimise risks of financial instability; and to avoid the unnecessary destruction of value. Therefore, the Resolution Committee is entrusted with the task of applying any of the resolution tools in cases of financial distress.

Meanwhile, the main duties of the Resolution Unit are identified in paragraph 8(4) of the First Schedule to the Act. These include:

a. Assessing whether an institution is failing or is likely to fail after consultation with the Resolution Authority;
b. Drawing up resolution plans on how to handle financial stress of an institution;
c. Carrying out resolvability assessments of institutions; and
d. Cooperating as well as exchanging information with other units within the MFSA, particularly the Supervisory Council which is primarily responsible for the supervision of banks and investment firms.

It is also the responsibility of the Resolution Unit to stop banks and investment firms from engaging in any form of practice that might hasten their collapse. This can either take the form of adopting highly complex business structures, exposing the business to excessive risks, or of holding insufficient convertible capital instruments.

The following section will discuss in more detail the process that institutions go through to prepare, and eventually submit, their recovery plans to the Resolution Authority.

2.5 Recovery planning

Article 5 of the Directive provides a general introduction to recovery planning. As mentioned earlier, the BRRD requires every institution that falls under its scope to prepare and maintain a recovery plan to restore its financial position in the event of significant deterioration.

The purpose of a recovery plan is therefore to identify the appropriate actions to be taken to counter those factors which put at risk the stability of the institution. This also involves assessing whether such recovery actions are robust enough to deal with a wide range of shocks of different nature. In other words, recovery plans must be detailed and credible, and include plausible actions that, if applied in a timely manner, would prevent a firm's unstable situation from further deterioration.
In Malta, the respective institutions were informed of this emerging obligation to draw up a recovery plan by way of a circular issued by the MFSA in September 2015. Provisional recovery plans were to be submitted by the end of the same year for reviewing. This entails close cooperation between the Resolution Authority and the Resolution Unit, which are responsible for analysing the adequacy of the submitted plans. If it is concluded that a particular recovery plan does not satisfy the requirements under the Directive, the respective institution will be notified to submit a revised plan.

2.5.1 Content

In preparing their recovery plans, banks and investment firms are to abide by a set of guidelines and technical standards issued by the EBA (2014a; 2014b; 2015a). It is important to understand that recovery planning is not a one-time process. Rather, it involves ongoing assessment and analysis, which reflects the changing profile of the institution.
Pursuant to Article 5(10) and Section A of the Annex to the BRRD, the draft regulatory technical standards (RTS) specify the information to be contained in the recovery plan. Technically, the plan is divided into five main headings: (i) a summary of the recovery plan; (ii) information on governance; (iii) a strategic analysis; (iv) a communication plan; and (v) a description of preparatory measures.
The recovery plan starts off with a summary of each key component which is subsequently described in further detail as the plan progresses. Moreover, should there be any material changes to the recovery plan once an updated version is submitted to the resolution authority, such changes are to be documented within the summary.

2.5.1.1 Governance

The governance arrangements within the recovery plan principally identify the relevant people within the firm who are responsible for developing, implementing and updating the plan. In this regard, this section also describes the process of approval and the procedures taken to integrate the plan within the corporate governance of the firm.
Most importantly, it focuses on the indicator framework – a crucial element of the recovery plan. Each institution is required to establish recovery indicators which provide early warning to the top management of any arising issues that threaten the stability of the firm. It must be noted here that recovery indicators do not prompt the automatic application of recovery options in response to particular scenarios. Rather, they trigger an escalation and decision-making process that aims to resolve situations of distress. These recovery indicators should eventually be assessed for their effectiveness by the competent authorities. The authorities should also ensure that appropriate arrangements are in place to regularly monitor these indicators.
In accordance with Article 9(2) of the Directive, the responsibility fell upon the EBA to issue specific guidelines that assist banks and investment firms in establishing indicators. The EBA (2015a) Guidelines do not specify a fixed set of indicators which each and every institution must apply. Instead, it is acknowledged that the risks faced by each institution vary in nature and in size relative to the business, its operations, and its interconnectedness to other businesses and the financial system as a whole. Therefore, a well-structured indicator framework is built upon the business model of an institution, making it in line with its strategy and risk profile.
Moreover, institutions should have an adequate number of indicators covering a wide range of vulnerable areas, as per the institutions' size and complexity. This makes it possible for firms to be in control of deteriorating conditions. Even so, institutions should be cautious not to put in place too many indicators that might in the end prove difficult to manage and monitor. Institutions typically monitor some performance indicators that are in place as part of regular risk management. Such a framework will help in embedding recovery planning into the ongoing business of an institution by aligning the recovery indicators with the existing indicators.

The EBA (2015a) Guidelines recognise that institutions should include a mix of qualitative and quantitative indicators that they deem the most relevant for their own business. In this respect, the guidelines set down the minimum list of categories that should be considered in the preparation of the recovery plan. These include capital, liquidity, profitability and asset quality indicators.

- Capital indicators should be able to alert the institution of any actual or anticipated significant negative effects to the quality and quantity of capital in a going concern.

- Liquidity indicators should be able to warn the institution in cases of a current or a predictable poor liquidity position. These indicators should see to the liquidity and funding needs, both in the short and long terms. Additionally, they should gauge the extent to which the institution depends on wholesale markets and retail deposits.

- Profitability indicators should attend to income-related aspects which are likely to result in lower profits or even losses, thus impeding the financial position of the firm and affecting its own funds. These indicators should point at operational risk-related losses which might potentially affect the profit and loss statement. Such losses could include conduct-related issues and external/internal fraud.

- Asset quality indicators should assess and control the institution's asset quality development. Particularly, these should detect those occurrences where asset quality deterioration necessitates the institution to resort to the actions outlined in the recovery plan.

Two other categories include market-based and macroeconomic indicators. What makes these indicators different from the above-mentioned is that it is possible for the institution to omit these indicators within its plan, on the condition that it justifies to the resolution authority why and how these indicators are not relevant to its legal structure, risk profile, size and complexity – thus making these two categories subject to rebuttable presumption.

- Market-based indicators draw on the expectations from market participants in order to detect declining financial conditions that could possibly disturb access to funding and capital markets.

- Macroeconomic indicators cover a larger scale, aimed at capturing signs of deterioration across the economy in which the institution operates. They are hence based on prevailing conditions which are related to the geographical area where the business is located and/or the sectors it is exposed to.

2.5.1.2 Strategic analysis

The strategic analysis maps out the key operations of the institution along with its critical functions, while also describing the internal and external relations of the firm. This essential component of the plan also sets out the actions to be taken by the institutions concerned if and when stress scenarios arise. Such recovery options would typically include capital and liquidity actions. They also ensure quick access to contingency funding in cases of emergency.

Recovery options fulfil their intended purpose if suitably linked to governance and stress scenarios. For one, the institution needs to assess the feasibility of the options with respect to their implementation, and seek to overcome possible obstacles. Meanwhile, it is crucial for the institution to design scenarios against which to test the effectiveness of the established options, and in turn, prevent a crisis from happening.

Article 5(7) of the BRRD conveys to both the EBA and the European Systemic Risk Board (ESRB) the authority to issue guidelines which specify the range of scenarios to be included in the recovery plan.

Institutions need to ensure that the designed stress scenarios are severe enough to threaten the firm's financial stability, if they do indeed materialise and no timely measures are taken to prevent complete failure. Nevertheless, these scenarios should be limited to portray only 'near-default' situations and go no further to consider the downfall of the firm, this being in line with the plan's purpose of proving the effectiveness of the actions taken to restore the viability of the firm.

According to the EBA (2014b) Guidelines on recovery plan scenarios, the plan should include at least three macroeconomic scenarios which respectively cover a system-wide event, an idiosyncratic event, and a combination of system-wide and idiosyncratic events. Systemically important institutions are then required to design at least four scenarios rather than just three.
A system-wide event is defined as one which leaves a significant adverse impact on the financial system or the economy. Meanwhile, an idiosyncratic event is not as far-reaching as a system-wide event, implying that negative consequences are limited in impact to an institution, a group or an institution within a group.
The EBA (2014b) Guidelines go on to specify a number of factors and events which are typically conducive of financial instability. This is in order to make sure that institutions consider the main types of stress events. The guidelines highlight the following system-wide events: the failure of significant counterparties, which affects financial stability; a decrease in liquidity available in the interbank lending market; an increase in country risk; adverse movements in the price of assets in the market; and a macroeconomic downturn. With regard to idiosyncratic events, these include: the failure of significant counterparties; reputational damage; severe outflow of liquidity; adverse movements in the prices of assets to which the institution is exposed; severe credit losses; and severe operational risk losses.
It is important to note that such events should be nonetheless chosen on the basis of the firm's risk profile, while also having regard to any identified vulnerabilities or weaknesses. This hence allows for different events to be taken into account which might prove to be more relevant than the ones specified in the guidelines.
Additionally, the establishment of stress scenarios would involve assessing the impact of such events on a number of factors of the institution. These include, but are not limited to the following: available capital, available liquidity, risk profile, profitability, operations and reputation.
In this respect, a number of respondents participating in the EBA's (2014a) open public consultation with regards to the content of recovery plans, argued that it would be less demanding to include generic stress scenarios instead of specific scenarios since "the relevant economic environment in a recovery situation is difficult or virtually impossible to predict" (EBA, 2014a, p.24). However, the EBA (2014a) explained that the scenarios should serve to closely test the effectiveness of the recovery options and indicators. Therefore, generic scenarios would be inadequate.

2.5.1.3 Communication plan

Communication is key to ensuring that both internal and external stakeholders acknowledge the implementation of the recovery plan and any related issues. Therefore, the recovery plan should also contain a communication and disclosure plan which describes how significant matters are to be effectively communicated to internal staff as well as to shareholders, investors, and the financial market in general.

2.5.1.4 Preparatory measures

The recovery plan should also include an analysis of any preparatory measures which might be undertaken to facilitate the implementation of the plan itself, and a timeline for the application of such measures. This may include structural changes in the institution to: enable the process of updating the plan and its implementation, to oversee recovery indicators, and to avert against problems which might complicate said implementation. Such an analysis of the preparatory and follow-up actions should be detailed in the recovery plan to better assess the feasibility of the plan, and to successfully monitor its implementation.

2.5.2 Impact – Benefits and costs

The main benefit of the RTS is that these standards ensure consistency among institutions by setting down the information that the recovery plan should contain, thereby establishing common minimum standards for banks and investment firms (EBA, 2014a).
It could be the case that the requirements to draw up a recovery plan within certain Member States would have been less demanding than those stipulated by the RTS (EBA, 2014a). Consequently, the RTS are

bound to induce additional compliance costs in these Member States. Such costs may arise as a result of changes in the information technology (IT) or system frameworks, increased staff training or recruitment of new employees, and will probably be incurred by both competent authorities and institutions. However, and as will be further explained later on, Article 4 of the Directive alleviates the effects of RTS requirements, in that it allows simplified obligations for less significant institutions.
Meanwhile, in the case of those institutions which already have a plan in place, the RTS are likely to generate only minimal extra costs. This is because many institutions would have met most of the RTS requirements through their risk management framework. In other words, the establishment of such a framework is likely to have already implemented certain processes and IT systems necessary for the preparation and execution of the recovery plan.

2.6 Resolution

2.6.1 Resolution plan

In Malta, the Resolution Unit, in consultation with the Resolution Authority, is tasked with the responsibility of preparing and executing resolution plans for the relevant institutions. Using the recovery plans submitted by each firm as a basis, the resolution plans are prepared *ex ante*. Article 11 of the BRRD requests institutions to cooperate with and provide the authorities with all relevant information in order to draw up and implement resolution plans. These plans should also consider a range of scenarios to illustrate the different actions that would be taken to resolve a failing firm. An effective resolution plan thus ensures the protection of the firm's critical functions and prevents severe disruption to the whole financial system.

2.6.2 Resolution tools

Pursuant to Article 37 of the Directive, the resolution tools available to the competent authorities include the sale of business tool, the bridge institution tool, the asset separation tool and the bail-in tool. These tools are not entirely new (Thole, 2014), in that they effectively replace or build upon existing law provisions in Member States.

2.6.2.1 Sale of business tool

The sale of business tool allows resolution authorities to effect a sale of part of or the whole institution under resolution, with or without obtaining consent from shareholders, to a private buyer which is not a bridge institution. This involves transferring to the purchaser shares or similar instruments of ownership held by the institution, as well as its assets, rights and liabilities. The value of the entity is determined by using an asset-based approach, and any sale proceeds are either distributed to the owners of the entity being sold, or else used to cover resolution costs. When only assets, rights and liabilities are sold to a buyer, the residual entity will be liquidated under normal insolvency proceedings. This should take place within a reasonable timeframe to ensure that resolution objectives are met, that the assets or liabilities transferred do not potentially lead to an adverse spillover effect, and that depositors, client funds and assets are protected (Freudenthaler, et al., 2016).

2.6.2.2 Bridge institution tool

The bridge institution tool aims to ascertain the continuity of all or part of the critical functions of a failing institution. It enables authorities to transfer the 'good' parts of an institution. This transfer may take the form of either a share transfer or a property transfer, to a bridge institution with or without shareholders' consent, and without complying with any requirements that would otherwise apply under company or securities law. In terms of the BRRD, a bridge institution is a legal person which would normally be an institution established by the resolution authority, whose main scope is to take over and hold the transferred instruments for up to two years until a sale is effected. Meanwhile, any remaining parts of the institution which would not have been sold are to be wound down in an orderly manner. A

bridge institution can also be established in advance in order to allow for a quicker response in critical situations (Freudenthaler, et al., 2016).

2.6.2.3 Asset separation tool

The asset separation tool is similar to the bridge institution tool, in that it enables the transfer of underperforming or impaired assets and liabilities to a separate asset management vehicle (AMV) or 'bad bank'. The AMV is also controlled by the resolution authority and is temporarily created to manage the instruments transferred from the failing institution or bridge institution. This hence allows the institution under resolution to continue with its critical functions rather than being wholly dissolved. This tool can only be used in cases where the bad assets would negatively impact the financial market if liquidated under normal insolvency procedures, or where the transfer is necessary to ensure the proper functioning of the distressed firm, or even to maximise liquidation proceeds through the maximisation of the assets' value through eventual sale. Unlike the three other resolution tools, the asset separation tool can only be applied together with another tool (Freudenthaler, et al., 2016).

2.6.2.4 Bail-in tool

The bail-in tool is considered the most innovative of the tools the Directive has empowered resolution authorities with. This tool ensures that the losses of a failing bank are borne by the firm's owners and unsecured creditors, rather than imposing such a burden on taxpayers as happens under a bailout. Losses are hence absorbed by either converting the debt into common equity, such as shares, or writing down the principal amount of the debt (Freudenthaler, et al., 2016). Consequently, the bail-in tool was also introduced in an attempt to break the bank-sovereign 'doom loop', which was particularly damaging during the 2008 financial crisis.

In this regard, institutions might decide to restructure their liabilities by avoiding issuing eligible liabilities in order to minimise the impact of bail-in in the event of resolution (Hadjiemmanuil, 2015). This led to the introduction of the minimum requirement for own funds and eligible liabilities (MREL), which requires banks and investment firms to hold a percentage of total liabilities and own funds eligible for bail-in. The MREL is determined on a case-by-case basis by resolution authorities upon individual assessment of each relevant institution.

In July 2016, the Florence School of Banking and Finance organised an executive seminar on banking resolution (Gatti, 2016). This enabled participants, including academics, EU policy-makers, investors and industry practitioners, to put forward their views on the introduction of the new banking resolution regime. With respect to the bail-in tool, although the general consensus was that the introduction of such a tool is a step in the right direction, criticisms still remained.

One of the issues noted was that bail-in rules might pose a risk of contagion throughout the whole financial system in cases where significant bail-inable debt is held by pension funds, insurance companies or other undercapitalised banks which might end up insolvent in the event of resolution of the bank. Therefore, there should be clear rules on who can hold bail-inable debt, thereby limiting cross-exposures (Gatti, 2016).

2.7 Proportionality

The EBA recognises the importance of the principle of proportionality. This principle ensures that "existing and new legislation and regulations are applied to banks and financial institutions in a proportionate way" (EBA, 2015b, p.7). Disproportionate regulation might hinder the activity of small institutions by offsetting the benefits of regulation due to the large costs incurred.

Article 4 of the BRRD states that national authorities may determine simplified obligations for small institutions, implying that the recovery and resolution plans of such firms would not necessarily include all elements discussed in the technical standards issued by the EBA. The now director of the Resolution Unit, Aldo Giordano, remarked that in the early days of the BRRD, the relevant authorities were considering exemptions for smaller institutions (Brincat, 2015). However, this proposal was scrapped since it was difficult to distinguish between small and medium institutions. Moreover, what is considered to be a small-sized firm in one country might be regarded as a larger firm in another country.

As a result, such an issue of proportionality was clarified by way of Article 4 of the Directive (Brincat, 2015).
This issue of small firms in respect of the BRRD was further examined by the Deutsche Bundesbank in the monthly report of June 2014. It may at first seem unsuitable to require small institutions to comply with the requirements of the Directive since it is highly likely that they do not pose a danger to financial stability. However, overall financial stability sustained by an effective resolution regime is beneficial to all institutions, including small firms. Additionally, cases of financial crisis abroad have illustrated that a large number of small interconnected institutions can indeed become a systemically important institution through forced mergers (Deutsche Bundesbank, 2014).
The impact of an institution's failure depends on a number of factors inherent to the business. Thus, recovery and resolution plans are bound to differ from one business to another since they are ultimately proportionate to the size, business model and interconnectedness of the institution to other firms.

2.8 Criticism

In his paper, Thole (2014) argues whether the introduction of recovery and resolution planning, otherwise referred to as living wills, was indeed the right step in meeting the objectives of the Directive. The author firstly points out that drawing up such plans requires an iterative process that is likely to place an increased burden on management in terms of both time and effort. Recovery and resolution plans are often criticised for the large amount of paperwork they involve, and may eventually be regarded as routine reports that do not fulfil their purpose until it is too late (Thole, 2014). Similarly, Lauha, Jaatinen and Tenhunen (2015) state that living wills tend to be quite extensive documents which might prove to be an additional burden on investment firms in particular. As a result, these plans might have the contrary effect from their objective of reducing complexity (Thole, 2014).
Thole (2014) further adds that there are no clear incentives which prompt management to consider early intervention and resolution proceedings, or assist resolution authorities by providing the necessary information. Senior management is generally replaced if the firm goes into resolution – Thole (2014), however suggests that managers naturally tend to disregard such a scenario. Therefore, managers may be hesitant about being involved in the process of constantly updating these plans. Clearly, authorities would not allow this kind of behaviour and can always impose sanctions for failing to comply. In this respect, the author still claims that national authorities might nevertheless find it difficult to regulate the system. It may be hard to determine the accuracy of the submitted plans considering that the authorities are only able to assess these plans on the basis of the information they are provided with.
The author further challenges the feasibility of this Directive by posing the major question as to the credibility of these plans. Whether the Directive "produces only a paper tiger largely depends on whether the plans are actionable" (Thole, 2014, p.9). He further states that moral hazard would not be adequately addressed if ad hoc solutions, including bailouts, persist regardless of the envisaged recovery and resolution actions.
However, despite the fact that the content of the plans might be too detailed or even inaccurate, and irrespective of the outlined limitations, these plans still prove useful to resolution authorities (Thole, 2014). As has been explained earlier on, planning partly involves preparing for scenarios that threaten the stability of the institution. Hence, this helps the authorities to take quick action when required (Thole, 2014). At the same time, unlike ordinary insolvency proceedings, recovery and resolution plans enable institutions to effectively handle crisis situations once these arise. This offers a degree of certainty, particularly to creditors, since it is expected that both resolution authorities and institutions will act upon the measures described in the plans, hence ensuring orderly management of the failing institution. Above all, planning needs to be given sufficient attention to obtain the desired outcome (Thole, 2014).
Thole (2014) concludes that, despite the issues of credibility and enforcement of the plans, the introduction of the recovery and resolution tools was a step forward in moving away from bailout procedures. They indeed reflect "a shift from the ex post perspective to the ex ante perspective" (Thole, 2014, p.21).

2.9 Situation in Malta

From the local scenario, Sammut Buontempo (2015) focused on the impact of the BRRD on the capital and liabilities of Maltese-registered core banks. She concluded that overall, there seems to be a lack of knowledge among banks with respect to how their liabilities will be affected by the introduction of the Directive. Moreover, the interviewed banks were all of the opinion that BRRD provisions do not bring about an increase in share capital. However, banks may still need to increase other types of capital, such as subordinated debt, to ensure that sufficient capital will be available in the case of resolution (Sammut Buontempo, 2015). The author also pointed out that the Maltese banking sector's preparedness with respect to implementing the requirements under the Directive leaves a lot to be desired, especially in terms of lack of awareness and dissemination of information, and uncertainty on regulatory procedures and resolution plans (Sammut Buontempo, 2015).

In his study, Xuereb (2015) looked at the impact of the Directive from the Maltese banking sector's perspective. One key conclusion observed was that despite the compliance costs incurred by the institutions within scope, the BRRD proves to be beneficial from both a local and European perspective. Analysing the same subject but this time focusing on investment firms, Brincat's (2015) study illustrated that, as opposed to banks, investment firms displayed an apathetic attitude towards implementing the provisions under the BRRD. The main reason behind this is that such firms consider themselves to be small in size compared to larger investment firms within the EU. Consequently, the investment firms participating in the author's study believed that if they were to fail, their failure could not possibly leave any significant impact on the financial industry. The compliance manager at FXDD Malta Ltd., an investment firm in Malta, was also of the opinion that the costs incurred to comply with the Directive impose additional and unnecessary pressures, and are not relative to the firm's size (Brincat, 2015). Brincat (2015), however, argues that despite the fact that Maltese investment firms are small when compared to those in other Member States, they are still considered to be quite large in our country. Therefore, if Maltese investment firms were to fail, this can still harm the Maltese financial industry, which in turn could indirectly affect the corresponding EU sectors (Brincat, 2015).

As has been presented here, this fairly new regulation is an important component of the Banking Union (Freudenthaler, et al., 2016). It is a step forward in safeguarding financial stability by ensuring the orderly resolution of failing institutions. The studies conducted in Malta, however, show that both credit institutions and investment firms had mixed views with respect to the introduction of the BRRD (Brincat, 2015; Sammut Buontempo, 2015; Xuereb, 2015).

This study intends to contribute further to what has been locally studied by analysing the implications of the Directive on non-core domestic banks and investment firms two years onwards in view of the requirements these institutions need to abide by.

3. Methodology

3.1 Preliminary research

The first stage involved a basic literature search to broaden the researchers' knowledge on the chosen topic. The topic was discussed with peers knowledgeable about the area, in order to assess the validity of the study. A comprehensive literature search across key databases was subsequently carried out to identify the relevant literature. The respective people working within the non-core domestic banks and investment firms located in Malta were also contacted beforehand to obtain sufficient support from the interested participants.

3.2 Research design

According to Saunders, Lewis and Thornhill (2012), the choice of the research design, which is the researchers' general plan for answering the research question, is an important step of the research process for it influences the subsequent stages of research. For the purpose of this study, a qualitative approach using semi-structured interviews was used to analyse the research question and achieve the identified objectives.

3.3 Data collection method and tools

Semi-structured interviews were used as the study's research tool for the following reasons. The main advantage of interviews is that they provide in-depth answers (Saunders, Lewis and Thornhill, 2012). This makes them an appropriate method of data collection where detailed insights about a particular topic are required (Saunders, Lewis and Thornhill, 2012). Semi-structured interviews consist of a number of predetermined questions which help to explore the main themes of the study (Saunders, Lewis and Thornhill, 2012). Moreover, unlike structured interviews, semi-structured interviews enhance flexibility of data collection since both the researchers and the participant are able to divert their attention to other ideas that further contribute to the topic under question (Gill, et al., 2008).
Two separate interview schedules were self-designed by the researchers following a review of the literature, one was used for representatives of non-core domestic banks and investment firms, and the other one for MFSA representatives. The interview schedule for the participants representing the institutions under study[3] is divided in three main sections. It starts with a number of general questions related to the research topic and then hones in specifically on recovery and resolution. The questions listed in this interview schedule mainly include open-ended questions, although not to the exclusion of a few closed-ended ones. Meanwhile, the interview schedule for MFSA representatives[4] only contains open-ended questions. These were mainly based on the questions listed in the other interview schedule. The reason for conducting an interview with MFSA representatives (holding the respective roles of director of the Resolution Unit, legal advisor within the Resolution Unit, and analyst within the Securities and Markets Supervision Unit [SMSU]) was to enable the researchers to collect the relevant data from the perspective of the Resolution Authority appointed for the purposes of the BRRD, responsible for the resolution of local banks and investment firms, and compare it with the data collected from the institutions under study.

Open-ended questions enable respondents to discuss the topic under question in detail, possibly giving rise to other topics on which the researchers might probe the interviewee to elaborate further (Mathers, Fox and Hunn, 2002). In this study, the closed-ended questions were in the form of rating questions. A Likert-style rating scale was used in which respondents were asked to specify the level of preparedness or unpreparedness with respect to a number of aspects. This was a five-point rating scale, ranging from 'very unprepared' to 'very well-prepared'. The Likert scale is able to measure a wide array of perceptions (Polit and Beck, 2006) by allowing respondents to decide on a specific degree of preparedness rather than giving neutral answers.

3.4 Sample selection

An appropriate sample size in a qualitative study is mostly dependent on the study objectives, credibility of data and resources available (Patton, 2002 cited in Saunders, Lewis and Thornhill, 2012, p.283). There are indeed no specific rules with regards to the size of the sample in qualitative research. Rather, the validity, understanding and insights of the data are attributed to the data collection and analytical skills of the researchers (Patton, 2002 cited in Saunders, Lewis and Thornhill, 2012, p.283). In this respect, Saunders, Lewis and Thornhill (2012) recommend proceeding with data collection until data saturation is reached. This occurs when additional participants provide few, if any, new perspectives or information (Saunders, Lewis and Thornhill, 2012).
The study's sample was selected by non-probability purposive sampling, whereby those who are most knowledgeable about the area being researched were selected as the study participants (Cresswell and Plano Clark, 2011 cited in Palinkas, et al., 2015, p.2). Despite its inherent bias, this sampling method is in this case the most practical, considering that only a limited number of people could be identified as primary data sources due to the nature of the study.
A list of licensed credit institutions and another list of Category 3 investment services licence holders in Malta were respectively drawn up from the Financial Services Register on the MFSA website as at

[3] Vide *Appendix 1.1,* p.80
[4] Vide *Appendix 1.2,* p.84

September 2016[5]. Reference was also made to the *Banking in Malta 2016/2017* report issued by KPMG (2016) to identify the non-core domestic banks from the core domestic and international banks operating in Malta.

In the current study, the participants had sufficient and relevant work experience within the banking and/or investment services industry. Within this context, the respondents held varying positions, these mainly being the role of a chief financial officer (CFO), risk manager and director of the respective firms. These different roles account for the fact that a high-level employee within a small-sized institution is typically responsible for a number of areas, including that of compliance, due to the nature and limited resources of the firm.

3.5 Research process

The respective people employed with the non-core domestic banks and investment firms operating in Malta were contacted and invited to participate in the research study through an e-mail, and where necessary, by phone. Despite several reminders, certain institutions did not respond to the invitation to participate. Only seven institutions accepted to participate in the study, obtaining a response rate of 50% (7/14). It is important to note here that although sixteen institutions (six non-core domestic banks and ten investment firms) were eligible to participate in this study[6], the study sample is equal to 14 institutions because of the following reasons: RTFX Limited had its licence surrendered voluntarily, whereas Binary Investments (Europe) Ltd, upon being contacted, confirmed that the firm does not require to follow the BRRD.

The seven respondents include four non-core domestic banks: MFC Merchant Bank Ltd, FCM Bank Limited, FIMBank plc, and IIG Bank (Malta) Ltd; and three investment firms: Rizzo, Farrugia & Co (Stockbrokers) Ltd, Calamatta Cuschieri Investment Services Ltd (incorporating Crystal Finance Investments Limited), and FXDD Malta Ltd.
All respondents were provided with the interview schedule by e-mail, sent in advance of the interview to allow ample time for preliminary analysis. The interviews were conducted throughout February 2017, in the form of six one-to-one interviews and one electronic interview through email.

One-to-one interviews were conducted on a face-to-face basis at the offices of the respondents and each interview lasted around thirty minutes to one hour. According to Saunders, Lewis and Thornhill (2012), it is beneficial for the researchers to establish personal contact with the interviewee since the latter is more likely to provide sensitive and confidential information in a personal interview than if s/he had to complete a questionnaire. With this being said, obtaining the right data is ultimately a question of whether the researchers possesses the appropriate interview skills (Saunders, Lewis and Thornhill, 2012). The location of the interviews was chosen by the participants themselves, considering that interviewees would feel more comfortable in a familiar environment, thereby enhancing data collection. Besides, permission was initially sought from the participants to audio-record the interview. Despite the main risk of technical default, audio-recording allows the interviewer to focus more on listening while taking note of the non-verbal behaviour of the interviewee (Saunders, Lewis and Thornhill, 2012). Brief notes were also kept during each interview to facilitate the analysis of the gathered data.

Meanwhile, electronic interviews prove to be more time-efficient for the researchers since there is no transcription involved if the respondents send back their answers through e-mail. The use of email during data collection may, however, raise ethical concerns due to confidentiality and anonymity (Saunders, Lewis and Thornhill, 2012).

[5] Vide *Section 1.2* for the respective lists of Maltese licensed non-core domestic banks and investment firms falling under the scope of the BRRD, pp.4-5
[6] Ibid.

3.6 Pilot study

The pilot study is a preliminary study carried out before the actual study to identify problems, if any, with the research tool (Gerrish and Lacey, 2010). This might subsequently require alterations to be made to the data collection instrument.
For the purpose of this study, a draft interview schedule was discussed with two banking specialists who possessed sufficient knowledge with respect to the regulation of banks, including the BRRD. The pilot study revealed that most of the questions were clear to understand and appropriately worded. Minor changes were done to some of the questions for a better understanding, while new questions were also added to help the researchers inquire further on key topics.

3.7 Data analysis

The data collected in this study was analysed through content analysis, that is the "process of organizing and integrating narrative according to themes and concepts" (Polit and Beck, 2006, p.497). This initially involved manually transcribing the audio-recordings in detail to enable the researchers to focus on the key constructs presented in the data and determine the trends of the respondents' perspectives (Vaismoradi, et al., 2016). In doing so, it is important that the researchers remains objective since otherwise, there is the risk of missing out on important data. Moreover, content analysis involves comparing and linking the recognised themes to each other and to existing literature in order to develop a coherent account of data (Vaismoradi, et al., 2016).

3.8 Analysis procedure

A description of the steps taken in the process of deriving the themes and sub-themes from the data is provided hereunder to ensure transparency.

Initially, the researchers read the interview transcripts several times in order to obtain a comprehensive understanding of data and become familiar with the main emerging issues. The purpose of this repeated reading is for the researchers to become aware of and focus more on the important constructs presented in the data (Vaismoradi, et al., 2016). A colour coding scheme was used to highlight recurring and meaningful items of interest, such as words and phrases, according to their relevance to the research question. This coding process served as a process of data reduction (Vaismoradi, et al., 2016) in that it helped the researchers break down the large amount of raw data into more manageable sections (Polit and Beck, 2006). In order to describe all aspects of the content presented in the transcripts, as many codes as necessary were assigned accordingly.

During this stage, research notes were also taken alongside the highlighted content. This enabled the researchers to make meaning of and in turn question the data (Vaismoradi, et al., 2016), while nevertheless ensuring that the participants' perspectives are fully captured and preserved (Mills, Bonner and Francis, 2006; Birks, Chapman and Francis, 2008 cited in Vaismoradi, et al., 2016, p.105). This process was carried out manually.

Following the process of organising the primary data into codes, the researchers analysed these categories of data and subsequently grouped them under higher-level headings as part of developing themes in relation to the research question. Vaismoradi, et al. (2016) claim that this aims at decreasing the number of categories by connecting them together and grouping similar codes into broader categories. These categories were subsequently labelled to capture the main ideas.
When the labelling process was finalised, the designated labels were reassessed in order to confirm the relevance of the developed themes to the research question.

3.9 Research limitations

Due to the nature of the study, a potential limitation can be attributed to the limited number of people that were available to participate, thus the size of the sample was relatively small. Additionally, given

that a 100% response rate was not obtained, the study findings could be potentially biased. However, the qualitative approach taken in this study enabled the researchers to collect sufficient information to form the research study, since, once data saturation was reached, the data collection could be stopped because further sampling would have yielded no new results.

.4.0 Findings

The main themes and sub-themes developed from data analysis are the following: 1) the general perspective about the BRRD; 2) the feasibility and necessity of the BRRD in the non-core banking and investment firms sectors; 3) the degree of preparation by the MFSA and by the respective institutions under study; 4) the recovery action undertaken in case of distress with respect to governance, 5) stress scenarios, communication and preparedness; 6) the nature of resolution planning, and resolution tools; 7) the main challenges faced in the implementation process of both recovery and resolution plans; 8) the bail-in of unsecured debt instruments and contagion risk; 9) the impact on the institutions' structures; and 10) the impact of the BRRD on investors.
The participants representing the non-core domestic banks have been coded by the researchers as B-A, B-B, etc., while those representing the investment firms are coded as IF-A, IF-B, etc. Meanwhile, where not specified, the participants who hold positions within the MFSA are collectively referred to as the MFSA. This was done to preserve anonymity and to promote better analysis. It is also important to note that the views expressed by the MFSA professionals are solely their opinion and do not represent the stand of the Authority. Additionally, verbatim quotes were included to substantiate the key arguments presented in the findings. As Fossey, et al. (2002) note, this enables the reader to assess the authenticity of the researchers' claim about the findings.

4.1 General perspectives of the BRRD

Asked about the general opinion they hold of the BRRD, almost all of the participating investment firms and banks agreed that the introduction of the BRRD was a positive development in further regulating investment firms and banks.

Indeed, IF-C believed that the establishment of this Directive in response to the 2008 financial crisis was a step in the right direction. It was paramount for the regulators to take immediate action and shift the burden of the failure of an institution from taxpayers to the firm's shareholders and creditors. The latter parties are ultimately expected to be responsible for the risk they are taking on and hence they should bear the greatest losses in the event of failure. Meanwhile, IF-A held that the BRRD is very important with respect to developing further the Internal Capital Adequacy Assessment Process (ICAAP). Being introduced as a result of Pillar 2 of the Basel II framework, the ICAAP requires institutions to ensure that they hold adequate capital in the long term to cover their respective material risks by implementing the necessary internal procedures and processes. Therefore, considering that the measures of capital adequacy and gearing have recently become more integral to institutions, the BRRD is believed to be a positive development in this respect.

Conversely, a different view was held by IF-B, having claimed that, since the modern market economy is mainly based on capitalism, there should not be as much regulatory intervention from supranational authorities. The participant believed that the introduction of the BRRD only adds to the list of existing regulations that institutions are required to comply with, and thus this amounts to unnecessary intervention. It was pointed out that the industry does require the rules pertaining to the prevention of business failure. The respondent, however, was unsure as to whether there really is the need for regulation in this case. Rather, he believed that it is the firms' responsibility to ensure that their risk officers are competent enough to prepare for and ultimately deal with distressing scenarios. The participant attributed this to the fact that, over his relatively long experience in the financial services industry, he had handled a number of instances involving the resolution of distressed institutions.

IF-B hence viewed the introduction of the BRRD as another regulation which the firm has to follow only because it is required to do so. In this respect, IF-A also maintained that regulations are clearly

imposed on institutions. However, institutions should perceive the BRRD as a positive approach to recovery and resolution.

Notably, a comparison can here be made with regards to the perception of the BRRD between investment firms and non-core domestic banks. All of the banks interviewed deemed that the BRRD is, in most respects, quite demanding of small-sized banks (such as themselves) to comply with. The participants agreed that despite the fact that the BRRD seems to be beneficial from a banking industry perspective, the Directive puts unwarranted pressure on them. B-A was concerned that the BRRD is creating additional costs and administrative burden in terms of the drawing up of the recovery plan, without being of much benefit to the bank. According to B-B, the guidelines issued concerning the obligations placed on the institutions falling under the scope of the BRRD, are vast, and there is no hard and fast rule to the implementation of the respective provisions.

B-C further adds to this by stating that the Directive is basically "one size fits all across all the different banks" and it is thus quite unfair to small-sized banks as opposed to larger systemically important banks. Meanwhile, although B-D believed that the BRRD is overall an effective directive if given the due importance, the respondent was wary of whether it would actually identify the real issue in practice, thus dismissing the Directive as more of an academic exercise with little relevance to the financial services industry.

From an MFSA standpoint, it was noted that although the BRRD is a very complex directive, its introduction was an imperative step forward in obtaining a harmonised approach of recovery and resolution at an EU level. It was explained that prior to the establishment of the BRRD, certain provisions within the respective acts regulating credit institutions and investment firms (namely the Banking Act, Cap. 371; Investment Services Act, Cap. 370; and MFSA Act, Cap. 330) empowered the competent authority to take control of cases where institutions are facing financial difficulties. However, these provisions were not as extensive as those under the BRRD. In fact, as was pointed out, the Authority has now obtained better access to more information about local institutions as a result of the submission of recovery plans. Moreover, national provisions only dealt with the recovery aspect and not resolution. In this respect, it was noted that the introduction of the resolution tools under the BRRD was a crucial improvement for the industry.

4.2. The feasibility and necessity of the BRRD: Was the BRRD the best step forward?

The respondents were asked whether they considered the establishment of the BRRD as an effective action aimed at dealing with the prevention of failure of credit institutions and investment firms.
The majority of the interviewees were ambivalent about whether the introduction of the BRRD was the right step taken in response to the negative repercussions of the 2008 financial crisis.

Corresponding to the above statements, B-D held that acting upon the lessons of the crisis by establishing the BRRD was a positive approach. However, he believed that it is definitely not enough. According to B-D, "it's not what you say you would do but what you do that makes a difference."

Similar views were put forward by the rest of the participating banks, which mainly distinguished between the theoretical and practical aspects of the Directive. B-C expressed his concern as to whether the regulators as well as the individual people working in the industry possess the experience and the right knowledge of what the process of recovery and resolution exactly entails, stating that "whilst the plans look good on paper, whether those plans can actually be executed correctly remains to be seen." This corresponds with the view held by B-A. The interviewee observed that the introduction of the BRRD had undoubtedly been an important step forward at the European level, though to what degree is yet to be gauged. B-A suggested that the effectiveness of the key provisions of the BRRD will remain unclear if such provisions are not tested out in practice.

Moreover, both participants IF-A and IF-B said that the basis of the Directive was already acknowledged and implemented within the institutions operating in Malta. Therefore, according to IF-A, the BRRD

only served to set the tone at the European level and further strengthen the existing policies and procedures. In this respect, B-B also noted that "the [BRRD] framework only complements and does not substitute market discipline and supervisory vigilance."

Meanwhile, IF-B stated that the establishment of the BRRD only helped in structuring better the existing framework that the firm had in place. He explained that the firm had over the years adopted more or less the same internal policies and procedures which have emanated from the BRRD with respect to the recovery and resolution of institutions. Therefore, upon the introduction of the Directive, IF-B was merely required to rearrange the existing manuals and internal rules. This is in line with was previously mentioned, namely that IF-B regarded the BRRD as a directive which the firm could do without.

Looking at the introduction of the BRRD from a wider perspective, and from a more positive standpoint with regards to the Maltese sector, IF-C believed that the BRRD will have less of an impact at the Maltese level when compared to the European level. This is due to the fact that the banks operating in Malta are sound institutions, each with a healthy liquidity and capital position. Moreover, according to IF-C, the risk of failure of Maltese-licensed banks is much less than that of foreign banks, primarily because the systemic banks in Malta are mainly funded by local retail deposits. Hence, it is fairly unlikely that core domestic banks will go down at some point.

4.3 Preparedness

4.3.1 Was the MFSA prepared?

Being designated as the national resolution authority in Malta, the respective units within the MFSA had the responsibility to communicate the provisions of the BRRD to Maltese licensed credit institutions and investment firms.

When asked how they would assess the preparedness of the respective units within the MFSA, all four banks stated that there was minimal guidance from the MFSA. B-D said that the only communication between the bank and the MFSA consisted of a circular which briefly informed the institution of the requirements that have emanated from the BRRD, emphasising the obligation to prepare a recovery plan by a set date. The circular also included a number of links which directed the bank to the relevant guidelines issued by the EBA in terms of the BRRD. Therefore, although the bank was given direction, the participant felt that there was little hand-holding.

As to the other three bank respondents, they were given a briefing on the BRRD during one meeting and a couple of information sessions conducted by the MFSA. B-B observed that the sessions held did not explore the Directive in as much detail as was considered ideal, stating that "the impression was [that] there are areas that would require in depth assistance and further consultation of the local regulator with the EU council." The participant added that further assistance and clearer guidelines are thus essential for institutions to familiarise themselves with and prepare for what is really required of them.

Additionally, B-C noted a big change in the outlook of the supervisory authority and the way it operates. The participant believed that in previous years when Malta was not yet part of the EU and the Central Bank of Malta (CBM) was the regulator at the time, there was more forewarning and guidance with respect to any arising issues, when compared to the present day. Therefore, the interviewee believed that banks were previously guided better by the regulator. By contrast, nowadays, the MFSA follows the steps of foreign regulators and thereby leaves banks on their own to research and interpret regulatory legislation.

Contrary to the above claims, IF-A strongly held that the MFSA does a good job in updating itself and in providing sufficient guidance. Yet, the respondent further claimed that it is typical of the firm to also turn to assistance from its auditors in such similar cases. IF-B also stated that the guidelines provided by the MFSA were sufficient for effectively implementing BRRD provisions within the firm's policies and processes. However, it must be noted here that, according to IF-B, the firm already had a rigorous

framework in place. He stated that "in respect to our company and with our experience, everything was clear enough." Thus, the participant was only required to re-adapt the existing framework so as to bring it in line with the terms of the Directive. This might indicate that the provided guidance was deemed to be adequate only because the firm was already in line with most recovery and resolution processes before the BRRD came into force.

Meanwhile, IF-C explained that the guidance that the firm received was sufficient within the context of what it was obliged to do with the introduction of the BRRD. Unlike the other respondents, IF-C explained that the firm was not required to draw up a recovery plan. In fact, the MFSA only required the institution to inform those clients who hold securities subject to the BRRD about the increased risks attached to such instruments, and this did not require any particular assistance.

In order to be able to better determine the extent of guidance provided in this respect, the interviewees were also asked to compare the guidance provided by the MFSA with respect to the BRRD and that provided with respect to the ICAAP. Similar to the BRRD, the ICAAP also required firms to make the necessary changes to their existing frameworks in order to ensure capital adequacy.

The majority of the participants agreed that there was more and clearer guidance on the ICAAP in terms of how well-documented it is in the MFSA Banking Rules. In addition, B-C stated that when the ICAAP concept was introduced, there existed greater knowledge and awareness of the requirements that institutions had to follow. In contrast, the respondent stated that:

> With respect to the BRRD, it was a hurried process, in the sense that we were expected to obtain an understanding of what was expected from us, look at the drafts and submit the necessary documents over a period of around a year.

B-C said that the establishment of the BRRD at European level was a rushed process to address the several shortcomings stemming from the financial crisis, and he believed that this justifies the seemingly lack of preparation on the part of the MFSA.

Similarly, according to B-D, the difference in the nature of guidance provided with respect to the BRRD and the ICAAP is attributable to the fact that the Directive is fairly new not only to the relevant institutions but also to the MFSA itself. The respondent claimed that even the Authority needs sufficient time to carefully go through the provisions of the BRRD in order to be subsequently able to communicate the relevant information to the respective institutions. This explains the Authority's poor guidance at the initial stage.

In fact, the MFSA indicated that the respective authorities had limited time for preparation considering that the Directive was completely new. The professionals therefore agreed that it is a learning curve for them in order to become familiar with and gain appropriate knowledge about the BRRD. With respect to the guidance provided to banks, it was explained that a team was formed within the Banking Supervision Unit to help the various institutions in the drawing up of the recovery plan and in acknowledging any questions that these firms might have, through the resolution authority's close cooperation with the Single Resolution Board (SRB) at EU level. Meanwhile, two circulars[7] were sent to investment firms to communicate the obligation to submit a recovery plan as laid down in the BRRD and further explain the application of simplified obligations. It was also mentioned that several meetings were held with the respective firms, individually at times, to essentially discuss the recovery plans.

4.3.2. Were the banks and investment firms prepared?

In line with what has just been mentioned above, four out of seven participants (all banks) argued that the lack of time available was the main hindrance to initially prepare for the BRRD.

[7] Vide <http://www.mfsa.com.mt/pages/announcements.aspx?id=30> for circulars dated 17/09/2015 and 08/10/2015

B-A pointed out that the MFSA exacerbated this issue by taking on a strict approach that did not simplify the implementation of the BRRD in the available time. He explained that the Directive did not require institutions to draw up a recovery plan by a fixed date. However, "as they [referring to the MFSA] tend to do, they went with the strictest approach" by requiring institutions to draw up a recovery plan shortly after the BRRD came into force. B-A claimed that this was quite demanding on small-sized firms, especially in the short span of time they were allowed to do so.

Besides the lack of time available, all four participating banks also claimed that they had insufficient financial resources. Meanwhile, most of the interviewees stated that they were 'somewhat prepared' to 'fairly well-prepared' in terms of possessing the skills and the knowledge vis-à-vis preparing the recovery plan.

4.3.3 Were consultancy firms prepared?

It is paramount of consultancy firms to keep abreast of the current developments in the financial services industry. All respondents stated that they sought professional advice from their internal auditors and legal firms, and the majority claimed that the guidance provided was clear and adequate. Even in terms of the knowledge held by such firms, most interviewees felt that these firms were well-prepared.
B-A, however, did not wholly share this positive view. Once again, the participant attributed the poor guidance initially provided by consultancy firms to the lack of time available for preparation. This said, he added that the consultancy firm which the bank works with has since then organised a number of informative sessions with respect to the BRRD.

4.3.4 Content of recovery plan

The respondents were asked to briefly describe the content of the recovery plans they have respectively drawn up in terms of governance and recovery indicators, stress scenarios, communication and preparatory measures. It is important to note here that IF-C explained that the MFSA did not require the firm to draft a recovery plan. Although the firm is a Category 3 investment services licence holder and trades on its own account, this constitutes a very minor activity of its overall business. As a result, IF-C clarified that the firm was only obliged to notify those clients who are holders of securities subject to the BRRD, about the new risks of such instruments.

4.3.4.1 Governance

The participants were required to identify the relevant people within their firms who are responsible for developing and maintaining the recovery plan. All of the identified responsible people hold varying senior positions within each institution, including the roles of chief executive officer (CEO), deputy CEO, CFO, risk officer, subsidiary CEOs, and heads of departments (including operations, treasury, IT, advisory and compliance). B-B stated that the contribution of the different departments within a firm is vital in identifying the critical activities pertaining to their unit for the preparation of the recovery plan. As for approval policies, most respondents stated that the recovery plan is subsequently subject to an internal or external audit, then reviewed by the institution's risk oversight committee, and ultimately submitted to the board for approval.

The component of governance within the recovery plan also includes the identification of recovery indicators which trigger the escalation and decision-making process to ensure the timely implementation of the firm's recovery plan. The majority of the participants said that these indicators are developed as per the EBA guidelines, and this process specifically involves including those indicators which are relevant to the business. B-D explained this by stating that certain indicators which were specified in the EBA guidelines were altered in accordance with the nature of the bank. In this respect, B-A highlighted the importance of developing indicators that reflect the monitoring activities already employed as part of the capital and risk management framework of the bank.

Additionally, B-B said that the recovery indicators are qualitative and quantitative in nature, and are ultimately based on the firm's risk appetite. The participant further explained that it is the responsibility of each department of the bank to assimilate the relevant data and regularly monitor its established indicators. Moreover, she added that there is a two-stage approach for each indicator. The management early warning trigger sets a target which gives management an indication of the bank's position in the area that requires close monitoring as this moves towards the indicator threshold, which is the minimum level of the indicator as agreed by management. Once such a threshold is reached, the escalation process comes into effect and this requires management to decide on the corrective actions which need to be taken with respect to the area with poor performance.

Similarly, both B-A and B-C use a traffic light approach for each of their designed indicators. The participants explained that this approach includes three stages of alert - green, orange and red/amber. If only one indicator is within the orange threshold, the executive management is advised to take the necessary action to restore the situation, whereas if more than one indicator is within the orange or red threshold, the bank enacts its recovery options.

Moreover, in order for the indicators to be effective, the participants stressed the importance of having a prompt communication system which informs the relevant people within the bank of any warning signals.

4.3.5 Stress scenarios

The participants identified a range of stress scenarios based on events arising from the vulnerabilities of the institutions. B-A stated that the identified scenarios were based on the bank's existing ICAAP analysis since such stress events were deemed to be relevant to the bank over its years of operation.
The following list provides a breakdown of the respective system-wide and idiosyncratic events designed for the purpose of the institutions' recovery plans (Table 4.1).

System-wide events
- Failure of a significant counterparty
- Political/economic instability in a significant country of operation
- **Natural disaster in the country of operation**
- Macroeconomic downturn
- Shortage in market liquidity
- Low volatility markets
Idiosyncratic events
- Failure of a significant branch within the group
- Outflow of liquidity
- Adverse movements in the prices of assets to which the institution is exposed, including oil and steel
- Defaulting clients
- Internal fraud and the post-incident reputational impact in terms of withdrawn client assets
- Effect of impairment losses on the bank's market in terms of deposits

- **Table 4.1 system-wide and idiosyncratic events (authors' compilation)**

4.3.6 Communication and preparatory measures

Most participants were not detailed about how situations of alert are to be communicated internally and externally. B-A stated that if the board decides to implement the plan in a situation of distress, the internal staff is to be informed accordingly. Meanwhile, the bank would also communicate the necessary

information to external bodies, including the MFSA, the CBM, the Malta Bankers' Association, and the public in general. Additionally, B-B identified the people authorised within the bank to inform staff, internal bodies, authorities and media, as the head of corporate communications and the CEO of the bank.

Moreover, most of the participants briefly described a number of preparatory measures which were taken to facilitate the implementation of the recovery plan. The following extracts identify the measures taken by the respective institution.

> One of the recovery options that we've identified is to get in a new investor at the shareholder level. So, we have set up a relationship with an investment banker, so that if we are to require a new investor, we can quickly get this investment banker to work on sourcing the right investor.
>
> (Respondent B-A)

> The three main preparatory measures identified include enhancement to the risk management framework, increased the diversification of liquidity, and enhancement to the financial model used for projections.
>
> (Respondent B-B)

> Since this is a small bank and we didn't have everything in place as per BRRD…these measures include the reporting systems that we have to put in place. In order to reduce credit losses, we are also considering establishing a credit insurance policy. And other measures.
>
> (Respondent B-D)

> …branch network, security in terms of server, access to the place of work, back up, disaster recovery plan.
>
> (Respondent IF-A)

> …it means going back to the manual and procedures in my department and inputting the necessary changes, training the staff and then implement the reporting process within the reporting and the risk monitor system after the staff is trained.
>
> (Respondent IF-B)

4.3.7 Assessment of the content

The MFSA was asked to briefly describe the main considerations which were unveiled upon assessing the recovery plans submitted by banks and investment firms. It was noted that the recovery plans submitted in 2016 "were quite crude and not detailed enough". The approach taken thereafter was that the authority "asked [the institutions] to amplify on the plans to make them more detailed…and give more credible solutions." It was explained that the plans had their weaknesses considering that this was the institutions' first time to prepare such a plan and it was felt that guidance was perhaps lacking. The Authority hence expects firms to update accordingly the plans submitted the previous year, and "[not] just invent strategies to appease the regulator." It is important that recovery plans are credible since it is the responsibility of the Authority to subsequently draw up the resolution plans on the basis of the information provided in the recovery plans.

4.3.8 Resolution

Participants were also asked whether they were familiar with the resolution section of the BRRD, specifically in respect of resolution planning and what it constitutes, and the resolution tools set out in the Directive.

Three participants (all banks) outright said that they were not quite aware with the concept of resolution. B-C and B-D respectively explained that "we are trying to solve the problems which are immediate rather than the ones which haven't cropped up yet" and it is "for the simple reason that I do not have time to be familiar with things that I do not need to do now."

On the other hand, IF-A said that the resolution side of the BRRD is "part and parcel of the recovery plan" and this required the respective people within the firm, including himself, to work through the Directive and familiarise themselves with the respective provisions. Meanwhile, IF-B claimed that he was licensed as administrative executive to be appointed by a regulating body in case of a company going insolvent, and thus he was aware of the resolution regime because of his involvement.
The MFSA representatives were also asked to comment on the level of awareness with respect to resolution planning within the local industry. It was explained that there is a balanced focus on both recovery and resolution planning. However, the industry is clearly more exposed to the recovery side of the Directive considering that the responsibility of resolution planning mainly falls on the Authority.
It was also claimed that the local systemic institutions were more likely to be familiar with the resolution regime than non-systemic ones. The director of the Resolution Unit explained that up to this date, the priority was always on systemic entities, even in the case of the BRRD. Therefore, there was more hand-holding between the Authority and the core institutions in Malta. However, he also stated that the next step is to shift the focus on the less significant institutions.

4.3.9 Main challenges faced

Overall, it was identified by the MFSA that the BRRD is quite complex in itself and although both the recovery plans and resolution plans are quite comprehensive, they are nevertheless tough documents to draft. In fact, the professionals working within the Resolution Unit explained that there is ongoing consultation with the SRB with respect to the resolution plans that the unit has to draft on behalf of the respective institutions. With regards to banks, it was pointed out that the establishment of a resolution fund has noticeably created additional costs to the bank, along with costs related to employing more people, and the administrative expenses incurred.

Moreover, the interviewed analyst from the MFSA also pointed out that the recovery indicators that were provided in the guidelines to the BRRD were not always relevant to the business model of local investment firms and thus they had to apply simplified obligations. This said, it was noted however that such simplified obligations do not really make the course of action that institutions need to take more straightforward. The professionals explained that if an institution is eligible for simplified obligations, it is still required by the Authority to provide its justified reasons for non-compliance within the recovery plan. Therefore, this still remains a challenge as institutions still have to go into a lot of detail to prove that they are eligible for simplified obligations.

4.3.10 The implications of the bail-in tool

Participants were asked to what extent they agreed with the statement that the bail-in of unsecured debt instruments will effectively lower contagion risk on other financial institutions and the financial system as a whole.

Various views were put forward by the participants. B-D described the bail-in tool as a double-edged sword. Although it might prove to be an effective tool, a bail-in situation is probably to have unfavourable consequences as well. The respondent explained that a bank's bail-inable liabilities might include liabilities towards another institution. Therefore, if these liabilities are actually bailed-in in the event of resolution, the counterparty would be negatively impacted as well. This challenges the effectiveness of such a tool. B-D, however, stated that he was not well-informed to form a concise opinion and it is not easy to determine whether bailing-in a failing institution will mitigate contagion risk.

A rather similar view was put forward by B-C. He believed that the bail-in tool is theoretically effective since the holders of unsecured debt instruments would be making good for the losses that the bank incurs in case of distress. However, he believed that contagion risk would still pertain considering that "the biggest contagion risk will always be the assumption that the banks are no longer able to sustain their business and the resulting loss of confidence." Therefore, no immediate financial bail-in will make good for the potential damage done to a bank's reputation and the loss of public confidence that ensues.

Meanwhile, IF-B was of the opinion that those on the public level, including the regulators, are not fully aware of what truly goes on in the private sector, and hence they usually fail to realise that transferring risk is not the best approach to wholly reduce it. Rather, this creates additional risks for the institution as it would be undertaking counterparty risk, which is even more difficult to manage.

From another standpoint, IF-C is hopeful that the bail-in tool is effective in containing failure problems within one bank and stop this from spreading out and affecting other institutions. He emphasised the fact that he is hopeful that the Directive has been established in a way to ultimately meet one of its key objectives of protecting the stability of the financial system.

4.3.11 Impact on the institution's structure

4.3.11.1 The requirement of MREL

Four out of the seven respondents stated that they were not required to adapt the institution's liability structure in order to meet the MREL, whereas the remaining three said that the MREL is not applicable in their case. The former participants explained that it is for the simple reason that they do not hold unsecured liabilities and the MREL is therefore based on the own funds of the institution. In this respect, B-A remarked that there has been some discussion around whether own funds can make up for the lack of unsecured liabilities. If otherwise, he added, this would pose a problem for small banks. In fact, B-C cast his doubts on the ability of a small-sized bank to issue unsecured debt, especially if the shareholders would not want to take the institution public.

4.3.11.2 The internal risk management and governance structure of the firm

The majority of participants agreed that the risk management framework and the governance structure of the institution have been relatively enhanced with the introduction of the BRRD. According to B-A, new processes were set up in the bank's risk reporting framework with respect to the established recovery indicators. Moreover, B-D noted that the process of introducing new internal processes, as well as strengthening existing ones, helped the institution in focusing more on the risk and compliance side, an aspect which is not always given the importance it merits by shareholders. This was also emphasised by both IF-A and B-B who both stressed on the importance of investing on time to have an appropriate governance structure and risk framework in place.
B-C, however, observed that the bank's governance structure and risk framework was not impacted by the introduction of the BRRD. He explained that the bank is fairly new and thus the frameworks in place and the way the bank is governed are in line with what one would expect of a small-sized bank.

4.3.12 Investors and the BRRD

Participants were firstly asked to describe the measures taken to inform investors of the potential risks and consequences relating to the write-down of the relevant financial instruments in case of the institution's resolution.

IF-C said that both investment firms and banks were legally obliged to communicate to their clients the necessary information about the new risks attached to held instruments impacted by the Directive. He explained that those existing clients who held unsecured instruments subject to the resolution regime were sent a letter describing the implications of the Directive on such instruments. Meanwhile, the firm was also required to explain this to any potential investors in its account opening documentation. In fact, the participant explained that in this document, a whole section has been dedicated to the BRRD and its implications to enable the firm to assess whether the potential client has demonstrated adequate knowledge with respect to instruments subject to the BRRD. Moreover, IF-C mentioned that the firm also made sure to add the words 'BRRD' to every corporate bond, subject to this Directive, that is listed on its website.

Likewise, IF-A explained that the House View Committee within the firm meets on a weekly basis in order to analyse the securities available for investment. This exercise enables the firm to inform its clients at an early stage about any emerging risks attached to their investments, such as in the case of the BRRD. According to IF-C, it is essential to build a solid relationship with investors and take early action to keep them updated with what is happening in the market.

Meanwhile, B-D was of the opinion that it is primarily the investors' responsibility to assess and evaluate the features of the securities they are investing in, and do their due diligence. Adding to this, B-C also believed that besides the fact that issuers are obliged to make explicit the risks inherent to investments in specific instruments, it is also the investors' responsibility to possess the right knowledge and expertise with respect to these securities. In this respect, B-A emphasised the importance of providing more investor education since he believed that certain retail investors are still unaware of the risks involved when investing in these complex securities.

Furthermore, participants were also asked whether investors require a risk premium for the elevated loss probability resulting from the introduction of the resolution regime under the BRRD, particularly the bail-in provisions. All interviewees agreed that investors do certainly require a higher risk premium on complex instruments subject to the BRRD. In fact, IF-C noted that spreads on these instruments have recently widened.

4.4 Perception

The 2008 financial crisis has brought to light the importance of developing a harmonised approach to recovery and resolution at the EU level. From the interviews held with the professionals coming from the Resolution Unit and the SMSU within the MFSA, it was highlighted that the introduction of the BRRD served to encompass the varying existing provisions relating to the failure of institutions within the different Member States. In addition, the BRRD empowered the Resolution Authority within the MFSA with extensive powers to effectively and cohesively deal with situations of instability of banks and investment firms from an early stage. It also put the Authority in an even better position to assess and monitor the respective institutions on account of the information provided by the institutions themselves in their recovery plans.

Additionally, prior to the introduction of the BRRD, the respective authorities in Malta were not equipped with the appropriate measures to resolve a failing institution. Therefore, the establishment of the resolution tools was central to the process of securing financial stability in the local scenario.
It is important to note here that, unlike Malta, other Member States had implemented various measures prior to the BRRD to maintain stability of their financial markets. In fact, Thole (2014) notes that the resolution tools introduced under the BRRD were not entirely new for some countries such as Germany, which put into force the *Restrukturierungsgesetz* (Restructuring Act) in 2011 with the aim of moving away from normal insolvency proceedings.

Focusing on the local scene, the institutions participating in this study generally agreed that what has been achieved to date in terms of preserving financial stability and minimising costs for taxpayers, is substantial progress. Additionally, it was held that the BRRD has, to a certain extent, contributed to effective risk management, following the introduction of the ICAAP and ILAAP (Internal Liquidity Adequacy Assessment Process) frameworks, as well as better governance structures within the respective institutions. In this respect, participant B-D observed that the BRRD also enabled him to emphasise the importance of risk and compliance management within the bank - an area which is typically underestimated by shareholders in particular.

Therefore, the general perception of the BRRD was a positive one among non-core domestic banks and investment firms, in that the introduction of the Directive was perceived as an imperative step in the wake of the financial crisis. In spite of this, the research findings also show that all banks under study believed that it is still too early to determine whether the recovery and resolution plans are indeed

feasible, thus suggesting that the Directive might be a paper tiger (Thole, 2014), and more of an academic exercise which might not, after all, run along the same lines as initially intended.

Some concern was also expressed by the respondents in relation to the extent of knowledge and experience held by people at regulatory level and at individual bank level for the proper execution of the BRRD provisions. Firstly, this implies that regulators might not necessarily understand precisely how an institution's failure could unfold. Secondly, the respective people within banks and investment firms need to hold a good understanding of what the process of recovery and resolution entails in order for the Directive to have its intended effect. With respect to this last point, IF-B in fact argued that the regulatory intervention taken at EU level is unnecessary to a certain degree, and it is more a question of having the right people doing the right job. However, one can argue that a lack of regulation is likely to result in disorganisation, which is in truth one of the main issues that the regulators are keen to resolve with the establishment of the BRRD. According to the EBA (2015b), the lack of harmonisation among institutions was complex and challenging to manage, especially in cross-border situations. This thereby emphasises the importance of regulation.

Previous local research (Brincat, 2015) observed that the Maltese licensed investment firms under study, which accounted for 30% of the Category 3 investment services licence holders at that time, held that the relevant provisions under the BRRD were costly to implement. They also believed that the Directive was unnecessary for small-sized firms like themselves.

In the present study, a similar perception is shared by the non-core domestic banks, which maintained that the BRRD put unwarranted pressure on them. They described the obligations emanating from the Directive as vast and complex, and this clearly requires a great deal of time and resources. Adding to this, the banks seemed to carry unsettled opinions about the benefits that could be gained from the development of recovery plans. This could indicate that since the BRRD has not yet been clearly tested in practice, there is no understanding on how these new provisions will prevent and mitigate financial chaos. Hence, banks might fail to acknowledge the benefits of the recovery and resolution regime under the BRRD unless it is tested. Moreover, the issue of bank size is also stressed upon in the current study given that B-C believed that the BRRD does not really make allowances for small-sized banks and is thus more applicable to larger systemically important banks.

Unlike the ambivalent perception held by investment firms in Brincat's (2015) study, the research findings in the current study show that the participating investment firms believed that the BRRD is constructive in itself. These differing views can be attributable to the fact that two of the firms under study had already implemented most of the internal processes required for drawing up recovery plans, whereas the other firm was only compelled to notify its clients about the new risks attached to instruments subject to the BRRD (as explained in *Section 4.3.3*). Therefore, given these reasons, one can deduce that the implementation of the provisions of the BRRD was not extremely challenging for the investment firms under study, thus explaining the firms' rather positive approach to the BRRD.

4.5 Preparedness

It primarily transpired that the implementation of the BRRD was a hurried process to address the shortcomings of supervision brought to the fore by the financial crisis. The banks under study claimed that this short time frame was the main deterrent to the institutions' preparation. This also did not bode well for the MFSA. The participating banks stated that they were briefed about the BRRD by way of circulars, meetings and information sessions held by the Authority. This was considered to be quite limited in nature, especially when compared to the guidance provided by the MFSA with respect to the previous case of the ICAAP. However, it was indicated that when the ICAAP was introduced, the institutions already possessed adequate knowledge on the subject and had greater awareness of what the process entailed. This emphasises further the fact that the institutions were at a bigger disadvantage when the BRRD came into force, considering the several new provisions that were introduced and the lack of time to get acquainted with such requirements.

With respect to this, the MFSA representatives claimed that the respective units within the Authority were indeed pressed for time to obtain a thorough understanding of the BRRD prior to communicating the Directive's requirements to banks and investment firms. As the director of the Resolution Unit commented, "new things are always on the way and the industry simply tries to keep up." In this regard, Xuereb (2015) also observed that at the initial stage after the BRRD came into force in 2015, the guidance provided by the MFSA to local banks was limited in nature due to the fact that the EBA's technical standards were still in process of being finalised.

It is also interesting to note here that one of the participating banks in the present study believed that there was a change in the way the supervisory authority started operating after Malta became a member of the EU, claiming that there was more hand-holding in the pre-EU days. This is warranted given that the regulator at the time (the CBM) was granted greater autonomy since Malta did not form part of a supranational union. Upon entering the EU, the then established MFSA, although still a fully autonomous institution (MFSA, n.d.), came to be under the auspices of supranational bodies, and it thus operates accordingly.

In this respect, it was also identified in the study findings that another participating bank was of the opinion that the MFSA did not allow enough time for institutions to submit their recovery plans, and that this limitation could have been prevented. However, although the Directive did not specify a date by when recovery plans should be drawn up, it is still the responsibility of the Authority to ensure that this is carried out at the earliest possible for the provisions of the BRRD to come into effect.

Unlike non-core domestic banks, the investment firms in the present study held that the guidance provided by the MFSA was sufficient for their needs. In this case as well, this can also be linked with the same reasons given in the previous section - the internal processes within two of the firms under study were already of a high standard and only slight improvements were required when the BRRD was introduced, while the other firm was not required to perform extensive work due to the nature of its business.

It is true indeed that, as the research findings show, the banks had insufficient financial resources to undertake this change. However, it was also identified that both banks and investment firms possessed most of the skills and knowledge with respect to recovery planning.

The majority of participants under review further observed that the internal auditors and legal firms they have worked with for the preparation of their recovery plans held adequate knowledge and provided clear guidance in this respect. As one bank indicated, consultancy firms are likely to draw on the expertise from firms abroad which fall under the same global network and are therefore more prepared. It is also to the benefit of such firms to keep abreast of the latest developments in the industry if they want to reach new clients and boost the firm's image.

4.6 Content of recovery plan

Given that two years have passed from the introduction of the BRRD, the researchers was able to obtain a succinct understanding of what is included within a local non-core bank and investment firm's recovery plan. Pursuant to the technical standards on the content of recovery plans issued by the EBA (2014a), the institutions' plans deal with the following four main categories.

4.6.1 Governance

As identified in the research findings, the persons involved in the development and continued maintenance of the recovery plan all held senior roles within the respective institutions. It was also noted that where the bank or investment firm was divided into various departments, the heads of these departments were responsible to contribute to the drawing up of the plan.
Such delegation of responsibility is primarily important to ensure coordination between the key areas of the firm. In this regard, Troiano (2015) notes that the in-depth analysis which is required to complete

and assess the recovery plan demands specialised expertise and extensive knowledge. Therefore, the departments' individual input to the plan is also of significant importance since it enables management to understand the institution's position, and in turn remain mindful of any circumstances which might jeopardise its stability. In other words, a credible and complete recovery plan requires the full involvement of the responsible people within the institution.

The governance component of the recovery plan also focuses on the indicator framework. Research findings show that the majority of institutions designed their indicators in accordance with the EBA (2014a; 2014b; 2015a) guidelines and altered them accordingly if they were not meaningful to the particular characteristics of the institution. It should be noted that none of the participants identified any difficulties in developing such indicators. Additionally, one bank under study stressed the importance of developing further any existing indicators which had been implemented within the capital and risk management frameworks of the institution, including ICAAP procedures.

The aim of these recovery indicators is to trigger the internal escalation and decision-making process within the institution, which in turn ensures that management takes timely corrective action to resolve the distressed area/s. As illustrated in the findings, three out of four participating banks clearly described two similar approaches: a traffic light approach that includes three stages of alertness depending on the colour of the threshold, and a two-stage approach that requires the necessary action to be taken by management once the indicator threshold is reached.

4.6.2 Stress scenarios

The recovery plan further requires institutions to set out the actions to be taken in the event of distress. In so doing, the effectiveness of these recovery options is subsequently tested against different scenarios. In the present study, the majority of the system-wide and idiosyncratic scenarios identified by the banks and investment firms are identical with the events laid down in the EBA (2014b) Guidelines on the range of scenarios to be used.

4.6.3 Communication and preparatory measures

The research findings further show that the majority of the institutions' recovery plans did not go into too much detail with respect to the communication plan. This could suggest that rather than elaborating on the communication process for each recovery option, the institutions might opt for an overall communication strategy. The EBA (2014a), however, affirms that it is imperative of an institution to set out in advance how it will internally and externally communicate the implementation of its recovery options since it would otherwise be too late for such considerations to be taken into account once crisis strikes.

Meanwhile, the majority of the institutions under study went more into detail with regards to the preparatory measures taken to implement the recovery plan. Evidently, all such measures related to the particular characteristics of the institution.

4.7 Resolution

The current study's findings indicate that while investment firms were fairly aware with the concept of resolution, non-core domestic banks were far less informed. This moves in line with what Sammut Buontempo (2015) had observed, namely, that the core domestic banks held little knowledge and were quite oblivious about resolution plans.

Banks attributed such lack of awareness to the fact that they have not yet been required to perform anything in connection with resolution planning and therefore, they would rather focus their attention towards the bank's immediate problems. It is true that the BRRD primarily entrusts the competent authorities with the preparation and execution of resolution plans. Nevertheless, institutions are required to cooperate with the authorities and provide the necessary information.

Adding to this, the study's findings indicate that the Resolution Authority within the MFSA has, at first, largely worked in close liaison with the local systemic institutions, and it is only now that it is directing its focus on less significant institutions, including non-core domestic banks, with respect to resolution planning. This hence explains why the banks under the current study exhibited lack of awareness with regards to what resolution is actually about. This said, the findings of Sammut Buontempo (2015) do not correspond with the above noted finding regarding the precedence given by the MFSA to core banks, and hence their expected preparedness. The 2015 study had noted on the contrary that the core domestic banks lacked adequate knowledge on the BRRD. This discrepancy might be due to the possibility that Sammut Buontempo's (2015) study was undertaken at what was still an early stage and before the Resolution Authority had taken the necessary measures to work closely with the respective banks.

4.8 The implications of the bail-in tool – risk of contagion

As was identified by the EC (2012), public bailouts of failing institutions pose serious problems to the industry as they are a source of moral hazard that lead to excessive risk-taking, and put an unfair burden of losses on taxpayers. The bail-in approach introduced by the BRRD thereby serves to counter such deficiencies by shifting the costs of bank failures from taxpayers to the responsible parties, these being the shareholders and creditors.

At the same time, the bail-in tool may still be a problematic approach due to its various systemic implications (Eliasson, Jansson and Jansson, 2014). In the current study, two out of the four participating banks held that while the bail-in tool seems to be effective enough, it could still have contagion effects on the industry. One bank stated that where the bail-inable liabilities of a bank include liabilities towards another institution, the bail-in tool would not prevent other institutions from being negatively impacted. Meanwhile, the other bank was of the opinion that the bail-in tool has an indirect contagion effect since it is highly likely that this will result in a loss of public confidence. In this respect, Eliasson, Jansson and Jansson (2014) observed that there is a greater degree of contagion risk if the banks in a country are closely interlinked with each other.

4.9 Impact on investors

The research findings show that banks and investment firms were required to inform investors about the increased risks of instruments subject to the resolution regime under the BRRD.

An additional measure taken by one investment firm under study involved amending the firm's account opening documentation to include a section on the BRRD to inform potential clients about the new risks that particular bonds might carry. Another investment firm explained that it is part of their work to analyse the securities available for investment on a frequent basis to be able to promptly inform their clients of any emerging risks. Meanwhile, the participating banks emphasised that it is also the investors' responsibility to possess sufficient knowledge to assess the risks of the instruments they hold. In this respect, it was emphasised that locally, there should be more investor education to increase the level of financial literacy among retail investors.

The research findings also pointed out that investors definitely demand a risk premium on bail-inable instruments. It is clear that higher risks come with higher returns, and this could possibly increase funding costs for banks. The participants, however, did not elaborate on this.

5.0 Conclusions and Recommendations

In line with previous local research, the non-core bank participants under study believed that that the BRRD puts unnecessary pressure on small-sized institutions which are not as significant to the industry when compared to the larger, systemic banks. Moreover, the implementation of the BRRD happened too quickly for the banks to sufficiently prepare for what was required of them in terms of drawing up of recovery plans. The problem of lack of time was further exacerbated by the lack of sufficient guidance provided both at EU and Maltese levels. As observed by the MFSA, the recovery plans submitted to the Authority lacked credibility and plausibility. Nevertheless, the BRRD is believed to be beneficial if

sufficient attention is given to it. Meanwhile, the investment firms under review were more positive with the way forward of the BRRD.

It was also concluded that most institutions were not yet aware of the resolution part of the BRRD. Another conclusion observed is that there seems to be mixed views on the effectiveness of the newly established bail-in tool under the BRRD. Considering that the introduction of the BRRD has increased the risks on unsecured instruments eligible for bail-in, more attention should be given to the professional knowledge and expertise held by holders of such instruments. The risk premiums required on these complex instruments might also potentially increase funding costs for banks.

Overall, from this study's findings, it is apparent that the institutions under study, especially the non-core domestic banks, show an ambivalent approach towards the introduction of the BRRD. The establishment of an improved resolution regime within the EU was indeed a big step in the pursuit of securing financial stability in the local scenario, especially in terms of the advance planning that was subsequently required to be taken by both the institutions and the Resolution Authority within the MFSA.

However, scepticism prevailed among banks as to whether the BRRD is just an academic exercise or is actually effective in its objectives. In contrast, the investment firms under study were rather positive in their approach towards the BRRD.

The main reason behind this is that the banks believed that it is too early to determine whether the application of the recovery and resolution plans, along with the resolution tools, would indeed be effective in maintaining financial stability. Considering that the benefits are not yet clear to the banks, it was felt that the BRRD was placing unwarranted pressure on them. It was also believed that the BRRD is more applicable to larger systemic institutions considering that the provisions of the Directive seem to be catered more towards such institutions. In this regard, the MFSA was also of the opinion that although Article 4 of the BRRD allows simplified obligations for less significant institutions, these do not particularly alleviate the complexities that small-sized banks face in drawing up their recovery plans. This is because these banks would still need to provide detailed information to justify the application of simplified obligations.

The non-core domestic bank participants also attributed the pressure put onto them to the fact that the implementation of the BRRD was a rushed process at EU level. In fact, they even lacked adequate guidance from the MFSA and were insufficiently prepared in terms of financial resources.

The findings have also shown the content of the recovery plans drawn up by the institutions. In this respect, the key points of how the plans are developed, who is responsible, and what indicators and stress scenarios are used were duly established. To this end, the MFSA noted that the submitted recovery plans were not detailed enough and were lacking in terms of credibility and plausibility.

Additionally, while there is a lot of focus on recovery plans and the related provisions, there is still lack of awareness on resolution planning, once again among banks in particular. This is clearly due to the fact that resolution planning is still at an early stage, considering that such plans are mainly based on the information submitted in the recovery plans. Moreover, not much attention has been given to the less significant institutions.

With this study the authors show that it is important that the objectives of the BRRD are clearly interpreted among the respective institutions. This is also a matter of allowing enough time for such institutions to be able to smoothly and aptly prepare and implement the provisions of the BRRD. In line with the studies conducted in Malta two years ago, this study highlighted the point that further hand-holding is essential for the industry.

5.1 Recommendations

The authors therefore make the following recommends:

- **Better planning by the authorities concerned**
  If institutions are pressured in implementing certain provisions within a short period of time, the likelihood is that not enough importance will be given to such provisions, thus demeaning the effectiveness of the Directive. Better planning on the affected areas will allow for a smoother and more effective implementation of the respective requirements.

- **More focus on guidance**
  It is evident that the institutions under study believed that more information and guidance with respect to the planning of the recovery plans would have been of great help. More specific guidance can be provided by way of circulars on the individual components of the recovery plan. Moreover, more frequent meetings could be held with the respective professionals within the institutions to enable better follow-up.

The extent to which the BRRD legal framework has been successful among non-core domestic banks and investment firms needs to be assessed in the light of its relative novelty and recent introduction. Time, and hence more practice, shall be able to point out more clearly how much relevant and effective the preparatory and preventive measures endorsed by the BRRD really are. With this being said, this study has nevertheless illustrated that even if in its early stages, the BRRD has introduced those instruments that are bound to play a fundamental role in helping advance corporate governance arrangements and mechanisms, and in promoting a culture of risk awareness and control among banking and financial companies.

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LEGISLATION

Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.

Malta Financial Services Authority Act 1989. (Cap. 330 of the Laws of Malta).

Recovery and Resolution Regulations 2015, L.N. 301 of 2015 under the Malta Financial Services Authority Act. (Cap. 330 of the Laws of Malta).

Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

Appendix 1 Interview schedules

A1.1 Interview schedule to representatives from non-core domestic banks and investment firms

1. How long have you been in your current position within the firm?
   - ☐ Less than a year
   - ☐ 1 - 5 years
   - ☐ 5 - 15 years
   - ☐ More than 15 years

2. Did you hold this position when the BRRD was implemented?

3. What is your general opinion of the BRRD?

4. Do you think that the establishment and implementation of the BRRD was a good move in effectively dealing with the prevention of failure of credit institutions and investment firms:
   a. At the European level?
   b. At the Maltese level?

5. a. In what ways has the Resolution Authority within the MFSA prepared the respective institutions in implementing this directive?
   b. Was the provided guidance sufficient for the firm to get acquainted with the directive and subsequently abide by its provisions?

6. How would you rate the firm's preparedness for the BRRD and its requirements with respect to the following aspects? *(Please rate from 1 to 5, where 1 = very unprepared, 2 = fairly unprepared, 3 = somewhat prepared, 4 = fairly well-prepared, 5 = very well-prepared)*

Preparation of the relevant documents

1	2	3	4	5

Knowledge and skills

1	2	3	4	5

Time available

1	2	3	4	5

Financial resources

1	2	3	4	5

7. How would you rate the overall preparedness of the financial services industry in Malta with respect to the following aspects? *(Please rate from 1 to 5, where 1 = very unprepared, 2 = fairly unprepared, 3 = somewhat prepared, 4 = fairly well-prepared, 5 = very well-prepared)*

Guidance from the MFSA (including information sessions)

1	2	3	4	5

Guidance provided by consultancy firms

1	2	3	4	5

Knowledge held by consultancy firms

1	2	3	4	5

8. Did the BRRD regulatory implications impact the internal risk management framework and governance structure of the firm?

- *Recovery*

1. Can you briefly describe the arrangements and measures adopted to restore the financial viability of the institution in case of distress as set out in the recovery plan, with respect to each of the following:

   a. Governance (how the plan is developed, by whom it is approved, how it is integrated in the overall corporate governance of the firm);

   b. Recovery plan indicators (how these are determined);

   c. Recovery options (what type of stress scenarios were considered in identifying recovery options);

   d. Communication (how it is to be communicated);

e. Preparatory measures taken to implement the recovery plan

- *Resolution*

1. Chapter I of the BRRD is dedicated to both recovery and resolution planning. I understand that currently, institutions based in Malta are only required to submit their recovery plans to the MFSA for review, in accordance with the EBA guidelines.
   However, from the perspective of the BRRD, are you aware of the requirements that deal with the resolution part of the directive?
2. Under the BRRD, the EU introduced a minimum requirement for own funds and eligible liabilities (MREL). The MREL requires firms to hold a percentage of total liabilities and own funds which are eligible for bail-in. This percentage is determined on a case-by-case basis by resolution authorities upon individual assessment of each relevant institution.
   In order to meet the MREL, was there the need to adapt the firm's liability structure to increase unsecured liabilities?

3. Do you agree that the bail-in of unsecured debt instruments is an effective way to lower contagion risk on:
   a. Other financial institutions?
   b. The financial system as a whole?

   Why?

4. How are investors made aware of the potential risks and consequences relating to the write-down of the relevant financial instruments in case of resolution?

5. Do investors require any risk premium for the elevated loss probability?

A1.2 Interview schedule to representatives from the MFSA

1. Briefly explain your current position within the MFSA.
2. Did you hold this position when the BRRD was implemented?
3. What is your general opinion of the BRRD?
4. Do you think that the establishment and implementation of the BRRD was a good move in effectively dealing with the prevention of failure of credit institutions and investment firms:
   a. At the European level?
   b. At the Maltese level?
5. In what ways has the Resolution Authority within the MFSA prepared the respective institutions in implementing this Directive?
6. What were the main challenges faced by banks and investment firms in implementing the provisions under the Directive?
7. Article 4 of the BRRD states that national authorities may determine simplified obligations for small institutions, implying that the recovery and resolution plans of such firms would not necessarily include all elements discussed in the technical standards issued by the EBA.
   In what ways has this been applied in Malta?
8. a. Upon assessing the credibility of the recovery plans submitted by the respective institutions, briefly describe the main considerations which were unveiled from such an analysis (in terms of content and compliance).
   b. Are there any areas for improvement?

Appendix 2
List of Abbreviations

AMV	Asset Management Vehicle

BRRD	Bank Recovery and Resolution Directive
CBM	Central Bank of Malta
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRR/CRD	Capital Requirements Regulation and Directive
DGSD	Deposit Guarantee Scheme Directive
EBA	European Banking Authority
EC	European Commission
EMIR	European Market Infrastructure Regulation
ESRB	European Systemic Risk Board
EU	European Union
FSB	Financial Stability Board
IA	Impact Assessment
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IT	Information Technology
MFSA	Malta Financial Services Authority
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
RTS	Regulatory Technical Standards
SMSU	Securities and Markets Supervision Unit
SRB	Single Resolution Board
SRM	Single Resolution Mechanism