

Circular regarding Variable Remuneration in respect of FY 2015

We would like to draw your attention in respect of a temporary decision taken by the Malta Financial Services Authority in relation to variable remuneration.

Article 94 of CRD IV, in relation to the variable elements of remuneration, states that amongst other requirements:

- (l) a substantial portion, and in any event at least 50%, of any variable remuneration shall not be in cash.
- (m) a substantial portion, and in any event at least 40%, of the variable remuneration component is deferred over a period which is not less than three to five years.

The MFSA is well aware of the local context where trading activities comprise only a very small portion of banks' operations and also of the EU Commission's stance that CRD IV provisions relating to remuneration policies do not allow for any flexibility in the application of proportionality. During internal discussions on the matter of proportionality, the MFSA took into consideration the Malta Bankers' Association feedback, the European Banking Federation suggestions to the EBA, the EBA's opinion presented to the Commission, as well as other EU countries' stance in relation to this matter. In the circumstances, and until further guidance is provided to the competent authorities by the EBA and/or ECB, the MFSA is instructing licensed credit institutions in Malta to adopt a threshold in their application of the variable pay in instruments and deferral requirement.

Henceforth, the provisions in CRD IV relating to variable pay in instruments and deferral rule, as referred to above, are to fully apply if an individual staff member is remunerated with a variable pay of more than €100,000, or for lower values where variable pay is more than 100% of the fixed pay of the individual concerned.

Notwithstanding this, credit institutions are still expected to fully comply with the remaining CRD IV provisions in respect of remuneration requirements. Also, special attention is to be given to Article 94 (g) (ii), whereby any approval of a higher than 100% (but up to 200%) variable to fixed ratio for any individual staff member needs to be internally approved and the competent authority informed accordingly.

Communications Unit
Malta Financial Services Authority
10th November 2015