Template for notifying intended measures to be taken under Article 458 of the Capital Requirements Regulation (CRR)

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1. Notifying national authority and scope of the notification	
1.1 Name of the notifying authority	National Bank of Belgium (NBB)
1.2 Categorisation of measures	The NBB, in its capacity of macroprudential authority, requests an extension by one year of the period of application of its current macroprudential measure based on Article 458(2) (d) (iv) of the CRR2. The extension would apply from May 1, 2021 to April 30, 2022. The possibility of an extension of this type of measure is provided for in Article 458(9) of the CRR2. The macroprudential measure referred to above increases risk weights for IRB banks' exposures to Belgian residential real estate (retail exposures secured by residential immovable property located in Belgium). The measure consists of two components. The first (linear) component imposes a 5-percentage-point risk weight add-on for IRB banks' exposures to Belgian mortgage loans. The second, more targeted (multiplicative) component further increases the risk weights in line with the risk profile of the IRB bank's mortgage portfolio (by applying a multiplier of 1.33 to the (microprudential) risk weight of the residential mortgage loan portfolio). This measure (see Section 2.1 of this notification for more detail) was activated on May 1, 2018 and, in line with Article 458 CRR, remained active for two years, until April 30, 2020. Due to the persistence of the identified systemic risks (vulnerabilities) in the financial system, the measure was extended in May 2020 for one year according to Article 458(9) of the CRR.
1.3 Request to extend the period of application of existing measures for one additional year **(Article 458(9) of the CRR)**	Previous decisions in light of the Covid-19 pandemic: The NBB decided not to release the existing Article 458 measure in response to the sanitary and economic crisis caused by Covid-19 but issued forward guidance regarding the conditions that would justify a release. This forward guidance was issued on 1 July 2020 in the NBB Macroprudential Report and states that "*Although there are at present no signs of a significant increase in the imbalances or tensions on the real estate market, the Bank stands ready to release the macroprudential capital buffers created for real estate risks (on the basis of Article 458 of the CRR) if those risks were to materialise and lead to a substantial rise in non-performing loans, or if further developments on those markets were to exert long-term pressure on banks' profitability*." Decision covered by this notification:

	The systemic risk targeted by the existing Article 458 measure has not materialised yet but the NBB judges that the short- and medium-term effects of the sanitary and economic crisis have significantly increased the probability of materialisation of the risk in the coming quarters and hence the need to release the Article 458 measure for the purpose it was initially created. Given temporary income and other support measures and the delayed reaction of unemployment to GDP shocks, the timing of the potential materialisation of the systemic risk remains uncertain and may well take place after the current measure expires at the end of April 2021. In order to ensure the continuity of an important crisis management tool in the context of the COVID-19 pandemic that is associated with still high economic risks and uncertainty, the NBB deems that a second extension of the Belgian Article 458 measure is warranted in order to maintain the resilience of the banking sector and ensure sufficient loss-absorbing capacity from a macroprudential perspective, commensurate with IRB banks' exposure to the Belgian residential real estate sector. In order to justify its decision, the NBB is submitting the following relevant quantitative and qualitative evidence (see also Sections 2 and 4 of this notification): 1. Risks related to new mortgage production have recently started to stabilise in Belgium, following the introduction of supervisory expectations in January 2020. As this only relates to the new flow of loans, systemic risks in the stock of mortgage loans and bank portfolios remain high and will only gradually decline over time. The NBB therefore continues to see the need for a complementary macroprudential measure. Banks' resilience to a potential severe downturn in the housing market must be maintained by imposing sufficiently strong (macroprudential) capital resources to cover residential real estate exposures. 2. The NBB considers that the current calibration of the existing macroprudential measure is still sufficient to cover the identified macroprudential risks. Extending the measure not only maintains enough additional capital — commensurate with the high RRE exposures of Belgian IRB banks — (securing resilience in the banking sector), but also continues to discourage excessive credit risk-taking by IRB banks by requiring higher capital resources for the more risky (higher risk weight) mortgage loans. 3. In its previous notification, the NBB announced its intention to reassess the need for the current Article 458 measure when Directive (EU) 2019/878 becomes applicable and allows for the application of a SSyRB to retail exposures secured by immovable property for which the collateral (immovable property) is situated in Belgium. The NBB has done this assessment and arrived at the following conclusion: – While the SSyRB comes before the Article 458 in the pecking order and represents a genuine alternative to the current Article 458 measure, the NBB judges that its introduction in the very particular current context of the COVID-19 pandemic would generate undesirable discontinuities in the levels of the macroprudential capital "buffer" held by individual institutions (even if the aggregate capital buffer would remain broadly the same at sector level). Such discontinuities would be unfortunate and potentially disruptive – much more than in normal times – in the current highly uncertain and crisis mode circumstances, which make a procyclical reaction by the banks both more likely and sizeable, at a time when supporting the real economy is key.

	– That is, the introduction of a (uniform) SSyRB (at a level of 9.7%) could (in theory) yield a similar capital add-on at sectoral level, but it would heterogeneously impact the capital requirements of individual Belgian IRB banks due to its inherent differences in design compared to the Article 458 measure. The 458 measure consists of a linear and multiplicative component, whereas a SSyRB only consists of a multiplicative component. When expressed as percentages of relevant EAD, the CET1 macroprudential capital requirements range from 0.8% to 1.3% for the Article 458 measure, whereas they would range from 0.4% to 1.9% for an equivalent SSyRB. Switching from Article 458 to SSyRB while keeping the overall capital "buffer" at sectoral level at a broadly equivalent level would mean, on the one hand, that the macroprudential CET1 capital requirement would increase for two IRB banks (by up to 0.4% RWA relative to the 458 requirement) — bearing the risk of a procyclical response in crisis times for these two banks. These two banks have a combined market share of close to 40% in the residential banking mortgage loan market (both for stock and new production) – even rising to 50% if exposures are risk-weighted (RWA). As a consequence, substitutability might not be ensured in case of deleveraging, not only due to the size of these exposures but also due to a potential unwillingness by other actors to take over market shares in this particularly uncertain environment. On the other hand, a shift to SSyRB would decrease capital buffers for the five other IRB banks (by up to 0.9% CET1 capital in RWA), amounting to a potentially premature partial release of the existing "buffer" and an unintended reduction in their loss absorption capacity before risks have started to materialise in RRE or related markets. – In order to avoid these discontinuities in the very particular current context of the COVID-19 pandemic, the NBB therefore deems that a further (and last exceptional) extension of one year of the current Article 458 macroprudential measure would be justified and, by providing the required continuity, clearly preferable to the introduction of a SSyRB. – At the end of 2021, and assuming that no release of the extended Article 458 measure has taken place by then, the NBB will assess the need for introducing a SSyRB in replacement of the then prevailing Article 458 CRR2 measure expiring at the end of April 2022. In any case, the Article 458 CRR2 will not be extended again, beyond April 2022. This assessment will include a recalibration of the required macroprudential capital buffer on the basis of (i) the 2-year experience with the NBB supervisory expectations for mortgage loans, introduced in January 2020 (compliance of banks with these expectations should gradually lower the systemic risk in the IRB banks' portfolios), (ii) the level of losses that materialised already in the context of the COVID-19 crisis and (iii) the situation in the Belgian residential mortgage and real estate market.
1.4 Notification of measures to which Article 458(10) of the CRR applies (‘notification only procedure’)	Article 458(10) does not apply for this measure. Taking into account the total effect of the proposed measure, the risk weights for the IRB banks concerned will increase, on average, by more than 25%.

2. Description of the measure	
2.1 Draft national measures **(Article 458(2)(d) of the CRR)**	The current measure consists of two parts. The first (linear) part of the measure consists of a general risk weight add-on of five percentage points for IRB banks' retail exposures secured by immovable property located in Belgium (EAD_i). The increase in the risk-weighted assets for bank i, ΔRWA_i, from this first component is therefore determined as follows: $\Delta RWA_i = 5\% * EAD_i$ *(eq. 1)* The second (multiplicative) part of the measure provides an additional risk-sensitive element by targeting the risk profile of each (IRB) bank's (residential) mortgage portfolio. More specifically, this part of the measure determines the size of the (second) additional macroprudential risk weight add-on as a fraction (33%) of the microprudential risk weight on the (residential) mortgage portfolio, $RW_{RRE,i}$. The resulting additional RWA for bank i from this second component is thus determined as follows: $\Delta RWA_i = (0.33 * RW_{RRE,i}) * EAD_i$ *(eq. 2)* **After application of both parts of the measure**, **the total risk-weighted assets** for IRB banks' retail exposures secured by immovable property located in Belgium, is therefore determined by**:** $RWA_i = (1.33 * RW_{RRE,i} + 0.05) * EAD_i$ *(eq. 3)* The measure increases the overall RWs of the bank and – given regulatory capital requirements – implies that additional capital is needed to meet these requirements. We refer to this additional capital demand as the additional *capital buffers* generated by the macroprudential measure.
2.2 Scope of the measure **(Article 458(2)(d) of the CRR)**	The measure applies to: • retail exposures secured by residential immovable property for which the collateral (immovable property) is located in Belgium; • IRB credit institutions. The measure focuses on IRB banks as their model-implied risk weights are relatively low, compared to those implied by the standardised approach. The IRB banks in scope cover approximately 94% of the Belgian mortgage market; • both non-defaulted and defaulted exposures.
2.3 Calibration of the measure	The current measure primarily aims at enhancing the resilience of Belgian IRB banks to potential (severe) downward corrections in residential real estate markets against the background of increasing credit exposures of Belgian households (and banks) and sustained price increases (and some overvaluation) in real estate over the past years. For this reason, the calibration of the current measure was based on severe (macroprudential) stress scenarios described in the original notification of 2018. In view of recent developments in the Belgian mortgage market, the NBB deems that these stress scenarios remain meaningful and severe enough to be used to calibrate the measure. The COVID-crisis as such is no reason to change the parameters of the scenarios. An update of the sensitivity/scenario analysis performed indicates that, on the one hand, microprudential capital requirements (implied by microprudential risk weights) remain insufficient to cover all potential (macroprudential) losses

	under severe (macroprudential) stress scenarios and, on the other hand, that the current macroprudential measure (with the original calibration) is sufficient to cover the simulated losses – at sector level. As a consequence, these scenario analyses have allowed in the past to calibrate the buffer need in such a way that sufficient resources are now available in the current crisis mode for a potential adverse scenario that could materialise in 2021/2022. The total impact of the proposed measure on IRB banks' CET1 capital is estimated at € 2,056 million (compared to € 1,486 million at the time of the original notification in 2018), equivalent to approximately 3.72% of IRB banks' total CET1 capital. The bigger impact of the measure on CET1 capital is commensurate with the higher RRE exposures of Belgian IRB banks. A breakdown according to the contribution of each of the two components of the measure implies a CET1 impact of € 1,250 million (2.26% of total CET1 capital) due to the 5 percentage-point risk weight add-on and an additional impact of € 806 million (1.46% of total CET1 capital) from the second component. The measure pushes up the implied risk weights (on mortgage exposures) from approximately 9.8 % to 18.0% on average, broken down into an increase of 5.0 percentage points for the first component (by construction) and 3.2 percentage points for the second component. The substantial increase in risk weights for residential real estate exposures implies that the total impact of € 2,056 million CET1 capital corresponds to an 84% increase in the capital buffer compared to the microprudential CET1 capital requirements for this portfolio.
2.4 Suitability, effectiveness and proportionality of the measure **(Article 458(2)(e) of the CRR)**	The NBB macroprudential policy is currently no longer in the process of building buffers for future risks, but in a crisis mode where the focus lies on preserving previously accumulated buffers and being prepared for a materialisation of the risks targeted by the 458 measure and hence, for the release of accumulated buffers. As a consequence, the NBB considers that the (extension of the) current Article 458 measure, is necessary, suitable, effective and proportionate. ***The proposed measure is necessary and suitable in a highly uncertain context, like the current one due to the COVID-19 pandemic.*** Given temporary income and other support measures and the delayed reaction of unemployment to GDP shocks, the timing of the potential materialisation of the systemic risk remains uncertain and may well take place after the current measure expires at the end of April 2021. Extending the current measure would continue to strengthen banks' resilience without introducing any discontinuity that would inevitably result from the introduction of a different macroprudential instrument (like the SSyRB). ***The current measure is also effective and proportionate in maintaining banks' resilience.*** It directly acts on – and increases – the risk weights (from 9.8 % to 18.0 % on average) of IRB banks for RRE portfolios, that are deemed too low compared to the observed persistent systemic risks in the residential real estate markets (see Section 4.1). The linear component of the measure addresses the fact that no IRB model captures systemic risk, which is to some extent similar for all banks, regardless of whether these banks' models result in low or high risk weights. Thanks to the risk weight multiplier (second component) of the measure, banks with better risk profiles and higher credit quality (contributing less to the overall build-up of systemic risk) are affected to a lesser extent by this measure. Scenario analyses have allowed in the past to calibrate the buffer need in such a way that sufficient resources are now available in the current crisis mode for a potential adverse scenario that could materialise in 2021/2022. On the cost side, no signs of any strong impact on overall credit supply (neither in pricing nor in volume terms) and, indirectly, on the real economy

	have been observed. Nor have any signs of disruption of the Single Market (through cross-border spillovers) been observed during the period of application. ***To conclude, the NBB considers the extension of Article 458 measure as necessary, suitable, effective and proportionate.*** The extension of this targeted measure not only addresses the persistence of systemic risks (overvaluation, increasing household leverage and low capital buffers) by targeting the stock risks in banks' RRE exposures — by providing sufficient capital buffers (securing resilience in the banking sector) to overcome a severe downturn scenario — but it also avoids any unnecessary and – in an uncertain COVID-related environment — disruptive discontinuity that would result from the introduction a different instrument (like the SSyRB). Moreover, the Article 458 measure is complementary to the NBB supervisory expectations, addressing the flow risks in new mortgage loans. The NBB is closely monitoring the observed systemic risks in mortgage portfolios and RRE markets and signs of their potential materialisation. In line with the NBB's forward guidance regarding the conditions that would justify a release in the COVID-19 context, the NBB will consider the release of the measure if the conditions for a suitable release of the measure are met. The NBB will consider immediate withdrawal of the measure should banks start taking substantial losses in the event of rising defaults or significant amounts of debt restructuring. The exact release modalities will be based on specific market developments.
2.5 Other relevant information	/
3. Timing of the measure	
3.1 Timing of the Decision	April 30, 2021, at the latest
3.2 Timing of the Publication	April 30, 2021, at the latest
3.3 Disclosure	The NBB will announce the extension of the current Article 458 CRR measure by means of a press release on its website. This decision including the NBB Regulation and the enacting Royal Decree will be published in April 2021.
3.4 Timing of Application (Article 458(4) of the CRR)	May 1, 2021, for one year
3.5 Phasing in	As it concerns an extension of a measure already in force, no phasing-in stage is planned. The current measure will continue to be fully applicable to the Belgian (residential) mortgage loan portfolios held by all Belgian IRB banks.

3.6 Term of the measure **(Article 458(4) of the CRR)**	The measure is extended for a period of one year, until April 30, 2022.
3.7 Review **(Article 458(9) of the CRR)**	The calibration and appropriateness of the measure will be reviewed in December 2021 at the latest, taking into account the impact on systemic risk (materialisation) of both the COVID-19 crisis and the NBB supervisory expectations and the developments in the level and distribution of stock risks in IRB banks' mortgage portfolios.
4. Reason for the activation of the stricter national measure	
4.1 Description of the macro-prudential or systemic risk in the financial system **(Article 458(2)(a) of the CRR)**	Since the introduction of its macroprudential measure based on Article 458 in 2018, the NBB has been closely monitoring developments on the Belgian real estate market, the sustainability of household indebtedness (in particular the emergence of risk pockets) and the quality of banks' loan portfolios. **This monitoring indicates that, in the event of an important price correction/decline for residential real estate and/or a major shock to unemployment, banks may suffer major credit losses on their mortgage portfolios.** **This assessment stems from a substantial level of systemic risk in banks' mortgage portfolios as well as the persistence of macrofinancial vulnerabilities**, mainly related to: (i) the protracted expansion of banks' exposures to mortgage lending to Belgian households, secured by low capital buffers as a consequence of the low microprudential risk weights applied by IRB banks against these exposures; (ii) persistent and increasing signs of some overvaluation and downside risks in housing prices; (iii) the persistence and increase of household indebtedness (in particular risk pockets) fuelled by excessively loose credit standards for the riskier loan segments; and (iv) intense competition between credit institutions on the mortgage loan market as a consequence of the low interest rate environment which puts pressure on banks' profitability. **The persistence of these vulnerabilities (further detailed below), together with the high uncertainties stemming from the COVID-19 pandemic context, justify the decision to extend the current macroprudential measure, which ensures sufficient additional capital resources in IRB banks** (also see Section 2.4)**.** *i. Protracted expansion of banks' exposures to mortgage lending to Belgian households* Resident banks are increasingly exposed to the Belgian RRE market and continue to expand their mortgage portfolios. Total outstanding mortgage loans granted by Belgian banks to Belgian households grew from € 169 billion at the end of 2014 to € 229 billion in September 2020, which corresponds to an increase from 15% to about 20% of banks' total assets. Expressed in terms of CET1 capital, these exposures rose from 362% to 415% over the same period. This is the result of a persistently high growth rate of mortgage lending to Belgian households, with an average (year-on-year) growth rate of 5.5% (5.2% in September 2020), which is well above the average growth of mortgage lending to households of 2.8% recorded in the euro area over the same period. Moreover, Belgian banks are also exposed to the RRE market indirectly, including through their commercial real estate (CRE) exposures on construction and real estate firms, whose investment projects are also vulnerable to developments in the RRE market. In a context of significant macrofinancial risks and vulnerabilities (see below), low microprudential risk weights (9.8%) applied by IRB banks to RRE

	exposures are from a macroprudential perspective a source of concern. **The current Article 458 measure ensures the build-up of capital buffers — commensurate with the increasing IRB banks' residential real estate exposures — that are deemed sufficiently high to absorb a potential increase in credit losses on Belgian mortgage loan exposures.** *ii. Persistent signs of overvaluation in housing prices* Nominal property prices (for residential real estate) in Belgium have more than doubled (times 2.6) since 2000, without experiencing any major price correction, while real prices have risen by 84%. In comparison with other euro area countries, Belgian nominal property prices suffered smaller and less persistent corrections in the aftermath of the global financial crisis in 2008-2009. With an average year-on-year growth rate of 5.0% since 2000, the reference price index for residential real estate currently stands, in nominal terms, at the highest level recorded. This growth of nominal RRE prices has significantly outpaced general consumer price indices and pushed up the real price of residential real estate by 84%. In 2020Q2, the year-on-year growth rate of housing prices stood at 5.2% in nominal terms, and at 4.7% in real terms. Note that RRE price developments have been more dynamic than justified by changes in fundamentals, leading currently to signs of some persistent overvaluation in the Belgian RRE market. NBB analysis shows that the recent crisis has not (yet) impacted the Belgian residential real estate market in terms of both transactions and prices. Recent developments in prices could however be driven by some temporary demand- and supply-factors. Measuring over- or undervaluation in the residential real estate market remains difficult and subject to substantial uncertainty as the estimates crucially hinge on a number of assumptions underlying the model or benchmark being used as equilibrium level. Nevertheless, many of the benchmark valuation measures currently point to some degree of overvaluation in the Belgian real estate market. The precise degree of such overvaluation differs significantly across valuation methods, however. The NBB uses a model-based time series approach to explain (real) house price developments based on a number of key determinants, including interest rates, real disposable income, characteristics of mortgage loans, the tax regime applicable to residential property and demographic developments. To the extent that these determinants are considered to reflect their (long-run) equilibrium value, the model's residuals can be used to assess over- and undervaluation in the Belgian residential real estate market. Between 2009 and 2014, the model suggested an overvaluation of RRE prices in the range of 0 to 5%. From 2015 until the first quarter of 2020, the overvaluation has further increased, fluctuating within a range of 5 to 10%. For the second quarter of 2020, the overvaluation of Belgian RRE prices is estimated at 14.6%, but the relevance of this sudden high figure should be nuanced given the potentially temporary impact in the model's key determinant variables induced by the current COVID-19 pandemic context. The model-based overvaluation estimate is (as with any other metric) not only subject to uncertainty. It is also conditional on the current fundamentals (e.g. low interest rates), representing the equilibrium price level. Potential reversals over the medium term to a higher (equilibrium) interest rate level are not taken into account in the current model-based assessment of the over- or undervaluation of the real estate market. Therefore, in addition to the measured overvaluation, a return to a higher interest rate environment could

result in substantial downward price corrections towards a new equilibrium, consistent with these higher interest rates.

Finally, **the above analysis also does not rule out potential risks of sharp house price declines stemming from severe shocks, especially in the current COVID-19 pandemic context**, to one or more explanatory factors (interest rates, tax regime, demographics, disposable income, etc.) which would also significantly affect RRE prices. Moreover, price corrections in the real estate market following such contingencies could be substantially larger than the estimated (over)valuations should any negative feedback loops occur that trigger (negative) overshooting of the equilibrium price.

iii. Persistence of household indebtedness supported by excessively loose credit standards

The debt ratio of households increased gradually from 38.4% in 2002Q1 to 65.3% GDP in 2020Q2 (and 55.3% in 2012), raising some concerns about debt sustainability, especially for certain segments of the population (young, low-income). Belgium is one of the countries experiencing continued active leveraging by households, compared to other euro area countries where – on average – households have been deleveraging since 2010. As a result of these diverging developments, Belgian households' debt ratio now exceeds the euro area average debt ratio**. When combined with a deterioration in lending standards (as observed in Belgium between 2014 and 2019), these developments may also be indicative of the presence of risk pockets of over-indebted households which may be vulnerable in case of crisis/recession.**

Despite some recent tightening of lending conditions since the introduction of supervisory expectations in January 2020, the NBB considers that the current proportion of loans (already on the portfolio of banks) to riskier segments is still too high. If credit standards remain in line with the supervisory expectations, they will contribute to a steady but gradual reduction of the future stock risks in banks' portfolios:

- The fraction of new loans carrying a high LTV (>90%) had gradually expanded in recent years from 28% in 2014 to 33% in 2019. In 2020H1, following the introduction of the above-mentioned NBB supervisory expectations, this fraction of high LTV loans in the new production was reduced to 24%. However, the stock of outstanding loans with high LTV at origination remains high, at 32%. Average indexed (current) LTV figures indicate that 13% (i.e. € 28 billion) of the total outstanding stock carried an indexed (current) LTV above 90% at the end of June 2020.

- Banks recently granted more mortgage loans with a longer maturity. The most recent data show that loans with maturity between 20 and 25 years have become increasingly popular, with a share of new mortgage loans granted with a maturity of more than 20 years rising to 40 % in 2019, before declining to 33% in 2020, which is still higher than the share (29%) recorded in 2016.

- The share of new mortgage loans with debt service (to income) ratios above 50 % (DSTI >50%) remains high, at 21% in 2020, and there has been no significant tightening of banks' DSTI policies since 2016.

- There has been no marked reduction in the relative share of the "riskier loan segments", combining high LTV and/or DSTI and/or maturity levels at origination, in the total mortgage loan stock.

<table>
<tr><td></td><td>Notwithstanding the loose credit standards up to 2019, the average IRB risk weight for mortgage loans (before taking the macroprudential measures into account) has remained stable and low (at 9.8%).

iv. Intense competition between credit institutions on the mortgage loan market

Banks are expecting sustained new mortgage lending in the coming years. In view of the low interest rate environment which puts pressure on banks to mitigate its impact on profitability, a widespread strategy of stepping up mortgage lending may induce intense competition between the main credit institutions. Strong competition could support greater risk-taking, i.e. underpricing of risks.</td></tr>
<tr><td>4.2 Analysis of the serious negative consequences or threat to financial stability

(Article 458(2)(b) of the CRR)</td><td>Given the current uncertainties stemming from the COVID-19 pandemic, a severe downturn in the Belgian residential real estate market cannot be excluded and may have a substantial impact on Belgian credit institutions' solvency positions (given the importance of residential mortgage loan portfolios in the balance sheet of Belgian credit institutions - around 20% of total assets and 415% of CET1 capital, on average). This may in turn bring further unfavourable consequences for the Belgian real economy (potentially amplified by relatively high household leverage). As experienced in other countries, it could also spill over to the commercial real estate market.

Finally, in view of the importance of cross-border banking groups in Belgium and the degree of openness of the economy, safeguarding financial stability in Belgium will also have positive effects on financial stability in Europe.</td></tr>
<tr><td>4.3 Indicators prompting use of the measure</td><td>The main indicators are:
• house prices, including indicators for price valuation
• household debt ratio
• mortgage loan growth
• credit standards (LTVs, DSTIs, mortgage loan maturity, banks' interest rate margins, etc.)
• risk weights</td></tr>
<tr><td>4.4 Justification why the stricter national measure is necessary

(Article 458(2)(c) of the CRR)</td><td><u>Why other measures or legal bases are not adequate?</u>

<u>General comment:</u> Based on (i) the above risk assessment, and (ii) the current highly uncertain economic context due to the COVID-19 pandemic, the NBB considers that maintaining (by extending) the existing measure is necessary and justified, as it would ensure continuity in the capital requirements among Belgian IRB banks for a main financial stability risk that could materialise in the course of 2021/2022 (compared to the situation where the NBB would act on a different legal basis). Moreover, the extension of the measure under Article 458 CRR is also in line with ESRB Recommendation 2019/4 on vulnerabilities in the real estate markets, which refers to the complementarity between the current macroprudential measure and additional borrower-based measures. Finally, most of the considerations put forward during the initial activation and subsequent extension of the current measure remain valid.</td></tr>
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	Article 124 of the CRR2 (Exposures secured by mortgages on immovable property) Article 124 enables the designated authority to raise the risk weight for mortgage loans in the standardised approach. In Belgium, exposures risk-weighted according to internal models account for about 94% of the total market. In order to increase resilience of the Belgian banking sector to the identified systemic risks, Article 124 would therefore not be adequate. **Article 164 of the CRR2 (Loss Given Default)** Article 164 enables the designated authority to raise the LGD floor for mortgage loans in the IRB approach. However, the NBB considers that this option is not adequate/effective for the following reasons: - While Article 164 would lead to a change/intervention in banks' internal models, the intended measure aims to impose an additional macroprudential capital add-on – over and above the current microprudential requirements – without affecting or disrupting banks' internal models. The capital add-on implied by the measure will also vary according to the (changes in the) general risk profile (risk weights) of the respective banks' portfolios (unlike an Article 164 LGD floor). - An increase in the average LGD floor in Article 164 would have implications beyond the calculation of the risk-weighted exposure amounts in Article 164 and would also apply to, e.g., the calculation of expected loss amounts in Articles 158-159 CRR2. - LGD estimates have increased over the last years in Belgium. The low level of risk weights applied by IRB banks does not reflect developments in LGD estimates but results from a fall in PD estimates. Therefore, raising the average LGD floor would miss the point and would be a biased way to increase risk weights. **Article 133 (Requirement to maintain a systemic risk buffer) and 136 (Setting countercyclical buffer rates) of Directive 2013/36/EU** - **Article 133** of Directive 2013/36/EU (amended by Directive (EU) 2019/878) allows for the application of a sectoral systemic risk buffer (SSyRB) that may apply to all or a sub-set of retail exposures secured by immovable property for which the collateral (immovable property) is situated in Belgium. While the SSyRB comes before the Article 458 in the pecking order and represents a genuine alternative to the current Article 458 measure, the NBB judges that its introduction in the very particular current context would generate undesirable discontinuities in the levels of the macroprudential capital "buffer" held by individual institutions (even if the aggregate capital buffer would remain broadly the same at sector level). Such discontinuities (described in detail in section 1.3.) should be avoided in the current highly uncertain circumstances. In order to avoid these discontinuities, the NBB therefore deems that a further (and last exceptional) extension of one year of the current macroprudential measure would be justified and, by providing the required continuity, preferable to the introduction of a SSyRB. - At the end of 2021, and assuming that no release of the (extended) Article 458 measure has taken place by then, the NBB will assess the need for introducing a SSyRB in replacement of the then prevailing Article 458 CRR2 measure expiring at the end of April 2022. In any case, the Article 458 CRR2 will not be extended again, beyond April 2022. This assessment will include a recalibration of the required

	macroprudential capital buffer on the basis of (i) the 2-year experience with the NBB supervisory expectations for mortgage loans, introduced in January 2020 (compliance of banks with these expectations should gradually lower the systemic risk in the IRB banks' portfolios), (ii) the level of losses that materialised already in the context of the COVID-19 crisis and (iii) the situation in the Belgian residential mortgage and real estate market. - With regard to **Article 136**, the countercyclical buffer rate similarly applies to all credit exposures to the non-financial private sector located in the Member State concerned. Applying a buffer rate to all exposures in Belgium would equally penalise credit and other exposures to SMEs and corporates in Belgium, which is not the purpose of the current measure. In July 2019, the NBB had activated the CCyB rate for credit exposures located in Belgium to 0.5%, binding from July 2020 onwards, to target the acceleration of the Belgian credit cycle (driven mainly by corporate credit). It did not specifically target risk in real estate markets. In March 2020, the NBB released the CCyB to 0% to free up buffers and help banks maintain their critical financial intermediation function and deal with possible loan losses resulting from the COVID-19 pandemic.
5. Cross-border and cross-sector impact of the measure	
5.1 Assessment of cross-border effects and the likely impact on the internal market **(Article 458(2)(f) of the CRR and Recommendation ESRB/2015/2)**	The extension of the measure is intended to maintain the solvency position of Belgian credit institutions active in the residential real estate market and as a result, the overall resilience of the financial system. In addition, it provides an incentive to banks to reduce the share of riskier loans. The current measure applies only to the Belgian residential market and there is no indication that it has any significant impact on individuals or companies outside Belgium. Since the implementation of the current measure, the NBB has not observed any signs of negative impact on the Internal Market that would outweigh the financial stability benefits resulting in a reduction of the macroprudential or systemic risk identified. There is no reason to expect this observation to change during the one-year period of extension of the measure. In view of the persistent vulnerabilities and the cross-border dimension of the Belgian financial sector, not allowing for the extension of the macroprudential measure – especially in the current low interest rate environment – might in fact negatively affect the Internal Market, given the potential effect on financial stability in Belgium (reduction of the capital buffers, reducing asset quality, etc.).
5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	Following the extension of the current macroprudential measure, the impact on other sectors of the financial system will continue to be closely monitored, especially among insurance companies, as capital requirements are lower for part of these of exposures for insurance companies, raising the risks of leakages in the context of financial conglomerates in Belgium. The current measure has not led to any observation of substantial leakage to the non-bank sector.
5.3 Reciprocation by other Member States **(Article 458(8) of the CRR and**	In view of the systemic nature of the identified risks and the international character of the Belgian banking sector, the NBB asks the ESRB to continue to recommend that other Member States recognise the measure once the extension of the measure has been enacted and implemented. In order to avoid disproportionate implementation costs for reciprocating Member

Recommendation ESRB/2015/2)	States, the NBB suggests to keep an institution-level maximum materiality threshold of € 2 billion to be applied when reciprocating the measure. On 2 June 2020, the General Board of ESRB approved "*a pragmatic approach regarding the (continued) recommendation for reciprocation of macroprudential policy measures which have been extended without being changed in substance. In accordance with this approach, should an existing macroprudential policy measure be extended, the recommendation for its reciprocation will continue to apply (…)*".
6. Miscellaneous	
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6.2 Any other relevant information	/